

Austria	100.00	Germany	100.00	Italy	100.00	Japan	100.00	UK	100.00	US	100.00
Belgium	100.00	France	100.00	Greece	100.00	Spain	100.00	Sweden	100.00	Switzerland	100.00
Denmark	100.00	Finland	100.00	Ireland	100.00	Netherlands	100.00	Norway	100.00	Portugal	100.00
Poland	100.00	South Korea	100.00	Taiwan	100.00	Thailand	100.00	Turkey	100.00	West Germany	100.00
Yugoslavia	100.00										

# FINANCIAL TIMES

GERMAN UNITY

The Soviet Union springs a trap

Page 23

FT No. 31148  
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Tuesday May 15 1990

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## World News

### Experts warn of E German nuclear plant disaster risk

East Germany's main nuclear power station is so dangerous it should be closed immediately, according to a group of environmental experts. The group condemned security systems and other equipment in four reactor blocks at Greifswald power plant as totally inadequate. Page 3

### Philippines riots

Riot police fought hundreds of left-wing demonstrators protesting against the US military presence in the Philippines as the two countries opened talks in Manila on the future of America's largest overseas bases. Page 4

### Invasion blocked

Jordanian security forces dispersed thousands of pro-Palestinian demonstrators with tear gas to stop them trying to cross the Jordan river into the Israeli-occupied West Bank. Page 4

### London bomb blast

A bomb exploded outside a British army education building in London, wounding seven civilians. Page 10

### US-Iran deal signed

The US and Iran have signed a \$100m agreement to settle some 2,750 US financial claims arising from the Iranian revolution. Page 4

### Oil flow paralysed

Colombian leftist rebels blew up part of the country's main oil pipeline, paralysing the transport of crude oil. Page 25

### Universities reopen

Israel said it would start reopening Arab universities in the occupied West Bank and Gaza Strip, closed by the army for almost the entire 20 months of the Palestinian uprising. Page 27

### Gulf exchange

The Iraqi Foreign Minister Tariq Aziz said Iraq had officially answered a letter from the Iraqi government calling for face-to-face talks between the two countries' leaders. Page 2

### Legal action threat

Iraq threatened legal action against Italy, Greece and Turkey for seizing steel components alleged to be part of a "super-gun". Page 8

### Speculator freed

A Brazilian judge has freed speculator Newt Gingrich who was placed under house arrest after sparking a crisis in Brazil's stock exchanges last year. Page 10

### Defection denied

Diplomats in Hong Kong confirmed that Xu Jiatun, Peking's de facto ambassador to Hong Kong for seven years until last January, was in the US, but denied press speculation that he might be planning to defect. Page 4

### Pirate attack

Pirates attacked a boat carrying 85 Vietnamese off the Malaysian coast, killing many of those on board, abducting 16 women and leaving the rest to drown. There was only one known survivor. Page 10

### Aviation deaths

More than 2,000 people died in 70 air crashes in China last year, making it the country's worst year for aviation deaths. Page 10

### More graves dug

Vandals in the Swedish city of Lund dug red paint on gravesites marking graves of refugees from Nazi concentration camps. French grave vandals. Page 3

### Ethiopian food fear

A senior UN official expressed concern over a critical drop in Ethiopian food stocks. Page 26

### Strikers warned

The Nicaraguan Government told striking state workers they had 24 hours to return to work or be fired. Page 29

## Business Summary

### Mitsubishi seeks joint venture in west Europe

Mitsubishi Motors, the Japanese car and truck maker, is negotiating with Chrysler of the US as well as with Volvo of Sweden and Daimler-Benz of West Germany on the setting up of a car production joint venture in western Europe. Page 25

### SWISS Bank Corporation

Switzerland's second largest banking group, has bought registered shares giving it 48.7 per cent of Unigestion, Geneva-based finance company which controls Banca della Svizzera Italiana (BSI), Switzerland's sixth largest commercial bank. Page 25

### BRITAIN'S Securities and Investment Board

has won a court battle to stop unauthorised investment companies seeking business in the UK while operating outside the country. Page 24

### JAPAN is preparing plans

to raise public investment by about 50 per cent over the next 10 years compared with the last 10 in order to meet US critics of Japanese economic policy. Page 24

### COMPAGNIE Générale des Eaux

France's largest water and public services company, is to take a \$100m stake in Air Water Technologies Corporation (AWT), a New Jersey-based specialist in water resource management, air pollution control and the disposal of waste products. Page 25

### STATE Bank of South Australia

plans to become the fifth largest banking group in New Zealand by absorbing the country's United Building Society. Page 27

### BEIJING is appealing to

the International Monetary Fund (IMF) to use its influence to curb "beggar my neighbour" taxation policies, especially where they relate to income on capital. Page 2

### SEKEL, Anglo-Dutch oil company

has failed in its attempt to win Foreign Trade Zone status in a plan for a \$2.5bn-\$3bn oil refinery and petrochemical plant at Hushan, Guangdong. Page 8

### JACOBS Suchard USA

American subsidiary of the Swiss confectionery and coffee company, has failed to win approval to set up a Foreign Trade Zone status. Page 27

### CHIEF executives of some of

the largest US computer companies have issued proposals for changes in anti-trust laws and measures to increase market access for US products in foreign markets. Page 6

### TRUMP Shuttle, US airline

is still more than 18 months away from turning in a net profit. Page 27

### VENEZUELA reported that

direct, registered foreign investment in the country stood at an estimated \$2.4bn at the end of 1989 - a rise of 14 per cent over 1988. Page 6

### FORD UK, subsidiary of the

US car manufacturer, suffered a 25 per cent fall in pre-tax profits last year to \$98.6m from a record \$1.12bn a year earlier. Page 12

### TAIWAN may soon gain its

first new Japanese bank outlet for nearly 20 years in spite of resistance by the authorities in Tokyo, which are wary of disrupting Japan's relationship with China. Page 27

### AIR Liquide, leading industrial

gases group, is to invest \$28.7m in a new liquid hydrogen unit in French Guyana to power the Ariane 4 and 5 rockets produced by the European joint venture Ariane-space. Page 26

### CREDIT LYONNAIS Belgium

subsidiary of the leading French banking group, made an aggressive pitch for a slice of the Belgian savings market with the launch of two new investment products. Page 29

## Bonn may fund unity costs with D-Mark bond issues

By David Marsh in Bonn

THE West German Government is considering special D-Mark bond issues directed at international investors, especially the Japanese, to help meet the costs of financing German unification.

The bonds would be issued with a full government guarantee by the German Unity Fund, a financing vehicle to be set up by Bonn and the state governments to channel long-term investment into rebuilding the East German economy.

The Bonn Government is still only at a very early stage of pondering the question of special foreign borrowing. Such direct recourse to foreign markets would be highly controversial because it might lead to investors' and taxpayers' fears about the cost of German unification. It could also spark worries in the US and other debtor countries about intensified competition for limited Japanese funds.

Although no decision has been taken, a senior Bonn official said yesterday that Japanese investors were one of the possible targets for future borrowing by the unity fund.

The unity fund will lower the strain on central government resources stemming from Bonn's plan to take over responsibility for the East German budget after German monetary and economic union on

July 2. Bonn sees the prime advantage of a separate unity financing mechanism as providing a different type of debt instrument for the capital markets in coming years.

The fund is also due to tap savings both in Germany and abroad by privatising large parts of the German state-owned industry.

Pointing out the size of recent Japanese investment in West German securities, the official said yesterday that Japanese security houses were likely to be interested in future unity fund issues.

According to Bundesbank figures, Japan purchased a net total of more than DM13bn (\$7.8bn) of West German shares and fixed interest securities in 1988 and 1989, above all government and local authority bonds. Japanese buying interest, however, has fallen lately as a result of the weakness of the yen and the Japanese financial markets.

The Bonn official stressed yesterday that West Germany was looking only at issuing D-Mark denominated securities. Bonds in foreign currencies would not be necessary.

The last time that West Germany moved directly to tap the international capital markets was in 1983, when it issued bonds to Saudi Arabia

again to 8.57 per cent, more than 1 percentage point above levels at the start of the year, after reaching as high as 9 per cent in past weeks.

The exact size of Bonn government borrowing after the July 2 currency union depends on fiscal measures still to be negotiated with East Germany, as well as agreement with the West German Länder (states) on sharing out extra funding burdens.

The East Berlin Government has pledged to make a start on selling state assets as a key feature of the state treaty on monetary union being finalised this week between the East and West German Governments. The buildings and property of the secret police alone have been valued by the East Berlin Government at more than 60bn East German Marks.

Mr Theo Waigel, the West German Finance Minister, yesterday held talks on the state treaty in East Berlin with Mr Walter Bommberg, his East German opposite number. Mr Waigel repeated before the meeting Bonn's refusal to go beyond its previous commitments to finance East German social security insurance in the coming economic and currency union.

Wave of refugees, Page 8; Lex, Page 24; Voters air their misgivings, Page 24

## Gorbachev attacks secession moves

By Quentin Peel in Moscow and Christopher Bobinski in Riga

PRESIDENT Mikhail Gorbachev yesterday officially condemned the secession moves of both Estonia and Latvia, leaving himself in open confrontation with the rebellious Baltic republics, including Lithuania.

In two presidential decrees read out on Soviet television last night, Mr Gorbachev declared that both republics had violated the Soviet constitution, as well as a new law on secession, in declaring their determination to quit the union.

In a move which provides Soviet legal backing for Russian immigrants in the Baltic republics to defy their local governments, he declared that the Latvian and Estonian actions had "no juridical force from the moment of adoption."

His decree on Estonia, in particular, declares that "actions of state bodies and officers, as well as private persons," based on the Estonian restoration of its former independent constitution, was illegal.

At the same time, however, his most powerful political challenger, Mr Boris Yeltsin, condemned Mr Gorbachev's economic blockade against Lithuania, and called on the Soviet President to open negotiations with the Lithuanian Government.

"You cannot announce a blockade of your own nation," Mr Yeltsin told a meeting in Moscow. He threw down an open challenge to the Soviet leader, insisting that he would stand for election as president of the Russian Federation parliament tomorrow, and, if elected, seek to conciliate directly with all other republics - the Baltics first.

Mr Gorbachev's warning came as up to 200 Soviet army officers mounted a demonstration against Latvian independence and tried to enter the Baltic state's parliament as they called on the republic to rescind its independence declaration.

The military demonstration came as a Latvian Government delegation prepared to travel to Moscow for talks today with the Soviet authorities on Latvia's independence declaration, made two weeks ago.

After the demonstration a military helicopter circled Riga, the Latvian capital, dropping leaflets signed by a pro-Moscow Russian organisation and urging opponents of independence to march on the parliament building today.

The republic's ethnic Russians, who comprise almost 1m of Latvia's 2.7m population, also called a strike for today in protest at the independence drive.

In the face of anti-independence protests, however, Mr Frans Godama, the new Latvian challenge, Page 24

Continued on Page 24

showed that wholesale inflation in April had fallen by 0.3 per cent instead of rising 0.3 per cent as expected.

News of unexpected strength in the economy could equally dampen the market's gains, some analysts said.

The US stock market was also encouraged yesterday by a surge in stock prices in Tokyo. This was triggered by the yen's recovery against the dollar and lower interest rates in the bond market. In Tokyo, the key 225-share Nikkei index closed up 330.51 points or 1.88 per cent to 32,042.65 after surging on 531.88 on Friday, boosted by Wall Street's rise and the dollar's weakness. It was the first time the Nikkei had closed above the 32,000-point level in two months.

The combined strength of Tokyo and New York helped London's equity market to overcome gloomy economic news. The FT-SE 100 index jumped 38.6 points to close 1.8 per cent higher at 2,214.5, its largest daily gain since last Friday's economic news, which

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## Communism in Romania is dead but the communists are not

Opponents of Romania's interim President Ion Iliescu (left) want to ban all former communist activists from next Sunday's elections. But supporters say some of them are talented and needed. Page 3

STERLING	New York close \$1.8825 (1.3780)
London:	\$1.8815 (1.8815)
DM2.7850 (2.7425)	
FF49.3200 (52.700)	
SP12.3475 (2.3450)	
Y25.75 (25.75)	
2 Index 67.5 (67.1)	
GOLD	New York: Comex Jun \$389.9 (370.5)
London:	\$389.00 (389.00)
IN SBA OIL (Argus)	Brac 10-day Jul \$18.00 (17.255)
Chief price changes	yesterday: Page 25

## MARKETS

STERLING	New York close \$1.8825 (1.3780)	DOLLAR	New York close DM1.6435 (1.6575)	STOCK INDICES	FT-SE 100: 2,214.5 (+38.6)
London:	\$1.8815 (1.8815)	FF49.3200 (52.700)	SP12.3475 (2.3450)	FT Ordinary:	1,733.5 (+24.7)
DM2.7850 (2.7425)		Y25.75 (25.75)	Y152.425 (152.65)	FT-AE-Shares:	1,090.89 (+1.5%)
FF49.3200 (52.700)		2 Index 67.5 (67.1)	London:	New York close	DJ Ind. Av. 2,821.53 (+19.95)
SP12.3475 (2.3450)			DM1.6445 (1.6505)	S&P Comp	354.75 (+2.75)
Y25.75 (25.75)			FF49.3200 (52.700)	Tokyo: Nikkei	32,042.65 (+330.51)
Y152.425 (152.65)			SP12.3475 (2.3450)	US closing rates	32,042.65 (+330.51)
Y152.425 (152.65)			Y25.75 (25.75)	Fed Funds 8 1/4% (8 1/4)	
Y152.425 (152.65)			Y152.425 (152.65)	9-m Treasury	7.871% (7.86)
Y152.425 (152.65)			Y152.425 (152.65)	Long Bond	101 1/2 (98)
Y152.425 (152.65)			Y152.425 (152.65)	yield: 8.584% (8.67)	

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## EUROPEAN NEWS

## Belgium pleads with IMF over tax competition

By Tim Dickinson in Brussels

THE Belgian Government is appealing to the International Monetary Fund (IMF) to use its influence to curb "beggar my neighbour" taxation policies, especially where they relate to income on capital.

Mr Philippe Maystadt, the Belgian Finance Minister, has asked the IMF to suggest appropriate methods of tax co-ordination, "or at least limits on tax competition in the form of minimum taxation standards."

His initiative demonstrates the deep anxieties felt in small open economies like Belgium about full liberalisation of capital flows inside the European Community, starting in July, and the continuing determination of certain member states to harmonise EC tax systems.

"Belgium faces a difficult budgetary situation stemming mostly from the very high level of its public debt," writes Mr Maystadt, in a letter to Mr Michel Camdessus, managing director of the IMF. The country "is becoming increasingly vulnerable to tax competition from its neighbours, not only with respect to the taxation of capital income, but also with respect to the indirect taxation (excise and value added taxes) of easily transportable consumer goods."

Although Mr Maystadt does not mention it, Luxembourg's

lack of a withholding tax on interest and dividends paid to non-residents — as well as its prized banking secrecy — is a powerful magnet for Belgian funds. Indeed it was probably the most important reason why Mr Maystadt this year cut the rate of withholding tax on interest from government bonds from 25 to 10 per cent.

Mr Maystadt's underlying message to Mr Camdessus is that the problem is international. Efforts to harmonise EC taxes have met with limited success, he suggests, partly because "today's worldwide mobility of capital has made some EC countries reluctant to agree on minimum standards for capital income taxation to which non-EC countries would not conform."

He cites a recent IMF paper which concludes that the world economy will not reap the full benefits of the liberalisation of international markets until divergences in tax treatment which interfere with the efficient allocation of capital are removed. The paper suggests that just as countries find it necessary to co-ordinate trade policies under the General Agreement on Tariffs and Trade, they may also have to lay down additional rules of conduct for capital income taxation through a multilateral convention.

## E Germany draws wave of refugees

EAST EUROPEANS pursuing western prosperity are flooding East Germany at a rate of 500 a day, burdening a nation still reeling from the flight of its own citizens, officials said yesterday. AP reports from East Berlin.

East Germans cut off from the world by four decades of Stalinit rule are now finding the world rushing to them. Tens of thousands of refugees have arrived in recent weeks to seek work in a land of rising joblessness, the officials said.

"If quick regulations for the integration of foreigners are not created, the problem will become a social powderkeg," said Mr Joachim Krahs, an East Berlin social services official.

East Berlin and East German officials held a news conference yesterday to report on the influx of refugees. Hundreds of impoverished foreigners huddled for shelter in the city's overcrowded hotels and in the streets.

Mr Krahs said the influx of refugees was a result of the economic situation in their homeland.

Lichtenberg has become a way station for East Europeans entering the country on tourist visas. Hundreds wander the area with their belongings, children beg for money and scores of families often sleep in the station. Mr Krahs said

about 600 Romanians and other East Europeans live in the train station.

About 1,100 other East Europeans, most of them Romanians and Bulgarians, have entered the country since late April, the officials said.

About 20,000 Poles also have applied for citizenship in recent weeks, and several thousand Italians have entered the country, they said. About 650 East Europeans arrived on Monday morning alone at the train station in the East Berlin district of Lichtenberg.

"We no longer know how we can control this enormous influx," said Mr Gerhard Kielmann, a Foreign Ministry official. "Most of them are fleeing their poor economic situation in their homeland."

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## Yeltsin to launch bid from Russia

By Quentin Peel in Moscow

MR BORIS YELTSIN, the most popular political challenger to President Mikhail Gorbachev in the Soviet Union, yesterday announced plans to use the Russian Federation as a base for a direct assault on the central government.

At a mass meeting in Moscow two days before he will present himself as a candidate for president of the newly-elected Russian parliament, Mr Yeltsin said he plans to conclude direct republic-to-republic treaties — starting with the Baltic states — and international treaties, cutting across Moscow's authority.

He demanded the right for Russia — by far the largest constituent part of the USSR, with 146m inhabitants — to

draft an independent constitution, independent tax laws, and international trade deals.

He also called for the resignation of the Soviet government, headed by Mr Nikolai Ryklov, because of the failure of its economic reforms introduced only four months ago.

And he accused Mr Gorbachev of attempting to rig the Russian presidential election, using his office to urge deputies to vote against Mr Yeltsin, and preventing the broadcast of a TV interview putting the challenger's viewpoint.

The official Communist Party candidate for the Russian presidency is Mr Alexander Vlasov, currently the prime minister of the federation, and a Gorbachev ally.

## E Germans angry at property deals

By Leslie Collis in East Berlin

FORMER senior East German Communist officials are angering the local populace by buying property at bargain prices in a swift adaptation to the era of private enterprises.

Mr Egon Krenz, who briefly held power last autumn, offered 252,000 East German Marks for the two-storey villa he occupies on Majakowskiring, in East Berlin's Pankow district. The immaculate white building is one of 140 homes in the neighbourhood and more than 1,000 in East Berlin "owned" by the Government's Supply Agency.

Paradoxically, the sale of real estate to westerners has been a hurdle in the negotiations for a state treaty on monetary and economic union between East and West Germany. Bonn wants westerners to be able to buy and sell property freely, but many East Germans are afraid of a sell-out to property speculators.

Irish citizens in Pankow have demonstrated repeatedly to prevent the Supply Agency from selling its properties cheaply to their occupants. The Agency was set up by the former Communist regime to house its senior officials, including those of the hated and now dissolved Stasi security police. Seventeen of the Government's homes in Pankow are still occupied by ex-Stasi officers.

Mr Paul Kienberg, the former head of the Stasi department which suppressed the opposition, is one of a number of top officials who landed on their feet after the old regime was overthrown. Last November, he bought a comfortable house outside East Berlin for 15,500 Marks from the Supply Agency. The price, calculated on the basis of pre-war property values, was less than a sixteenth of the house's current market value.

The Party of Democratic Socialism (PDS), the successor to the Communist Party, has itself taken to offering nationalised property under its control to well-to-do western companies.

A sprawling building in a prime East Berlin location, which previously housed a central committee institute, is being rented by a PDS subsidiary called Fundament to western companies seeking scarce office space.

## Future of Warsaw Pact 'in the balance'

THE Soviet-led Warsaw Pact appears to be breaking up and its future could be decided at a meeting next month, East Germany's defence minister said yesterday. AP reports from East Berlin.

Mr Rainer Eppelmann, East German Disarmament and Defence Minister, made some of the most pointed comments to date from within the seven-nation Warsaw Pact. "It now appears as though the Warsaw Pact is in the process of dissolving itself," he said in remarks carried by East Germany's government-run news agency, ADN.

"Whether it has a military-political future depends on the meeting of the

disarmament and defence ministers on June 7." He did not specify where the meeting would be held.

The East German minister added that it would be necessary to hold the Warsaw Pact together as a "political alliance at least for an interim period."

Mr Eppelmann said he told his Soviet hosts during a recent visit to Moscow that a "German republic" could not belong to the Warsaw Pact.

"The Hungarians have signalled that they want to leave the [Warsaw] pact, the Czechs want to let it stagnate, and with the Poles, it's not clear," he said. Moscow officials have already proposed

the break-up of the opposing military alliance, Nato and the Warsaw Pact, but those proposals have been met with scepticism in Washington.

The question of military alliances and allegiances is one of the central points in the German unification talks.

Moscow says a unified Germany cannot remain in Nato while the US, West Germany and their allies insist on such a membership.

West German Foreign Minister Hans Dietrich Genscher has offered to let Soviet troops stay in what is now East Germany for a limited time during the unification process.

## EC deadlock on car insurance

By Lucy Kellaway in Brussels

EC INDUSTRY ministers yesterday failed to agree on measures that would open up the market for car insurance in Europe, with Britain and West Germany at loggerheads over the speed at which liberalisation should take place.

The Commission's proposal, which would allow insurance companies to sell "large risk" motor insurances anywhere in the Community on a single licence, is an important part of its plans for creating one European market in insurance. The failure comes barely a month after London and Bonn signed

an agreement that was supposed to signal a new spirit of co-operation on insurance and financial matters.

Mr John Redwood, the UK's junior Industry Minister, expressed disappointment at the lack of progress, and accused West Germany and Belgium, which he said were the chief foot-draggers, of hypocrisy in urging political union of Europe at the same time as blocking essential single market rules.

The dispute centres on the date at which insurance companies selling "large risk" car

insurance in other member states would be able to apply to this business their own "technical reserves." The reserves cover the amount of business that can be done with a given amount of capital, while "large risk" refers to large companies as opposed to individuals.

Britain wants the system operational as soon as possible. West Germany and Belgium would rather wait until the Commission's directive for liberalising all non-life insurance business has come into effect. This might not be until the middle of 1994 or later.

## Wider aim in 'super-gun' probe

By John Wyles in Rome

THE state prosecutor investigating the possible involvement of Italian companies in manufacturing parts for Iraq's "super-gun" said yesterday he might inquire into the role of foreign technicians associated with the placing of contracts in Italy.

The international dimensions to the affair would have to be investigated and this could include "foreign citizens of various nationalities," said Mr Adriano Rosellini.

He revealed that one Italian national had been questioned on suspicion of arms traffick-

ing. He declined to reveal his identity but other sources say he is not a member of the state-owned Societa delle Fucine steelworks in Terni, where most of the seized parts were made.

Mr Rosellini said all of the 90 tonnes of steel products sequestered at the end of last week at the port of Naples and in Brescia would be brought back to Terni for a technical evaluation.

Terni, where Mr Rosellini is based as a prosecutor, has been identified as the main source of the components whose destina-

tion is thought to have been the breach for a giant gun which Baghdad has allegedly been assembling. Societa delle Fucine is a special steels forging subsidiary of Iva, the Italian state steel company.

A spokesman for Iva said yesterday that the company had received an order for 15 pieces from the Iraqi State Electrical Industries and a second for 20 pieces from the Industry Ministry. A batch of 10 pieces for the first order had been delivered; the second order which had been asked

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## EUROPEAN NEWS

## Grave vandals concentrate French minds on race issues

By William Dawkins in Paris

THE DESECRATION of a Jewish cemetery in southern France has forced the country's centre-right opposition to consider lifting its boycott of a government plan for all-party talks on racism.

The attack, by unknown vandals against 34 graves at Carpentras, one of France's oldest Jewish cemeteries, was followed on Sunday night by another, against 32 tombs in the northern Paris suburb of Clichy-sous-Bois. This has given an enormous push to the internal debate on racial intolerance.

France's main political parties were showing signs yesterday of being shocked into trying to stink the differences which have so far prevented a solution to the country's racial problems. None is yet sure whether the attacks are an isolated barbarity or a symptom of a wide problem.

All the main parties except the Front were due to take part in a silent protest march, organised by the Jewish community, through central Paris yesterday evening, in the wake of similar parades through six big cities over the weekend.

Some Gaullist leaders and most of the rest of the moderate right said they would co-operate with Mr Michel Rocard, the Socialist Prime Minister, in a private conference on racism tomorrow.

This follows last week's adoption of an anti-racist law, proposed by the Communists and supported by the Socialist

administration, but opposed by the Gaullists for failing to tackle the source of the problem as well as stifling press freedom. It ensures that those inciting racial hatred can be fined, imprisoned or refused political and public service jobs. It is the latest in a series of barely successful anti-racist measures.

While anti-Semitism is latent in the extreme right, the big source of any wider racial discontent comes from the growing number of immigrants from southern Europe and former North African colonies.

Despite the fact that new legal immigration was stopped in 1974, the Interior Ministry estimates that the immigrant population has doubled to 4.5m over the past 15 years, of which Portuguese, Moroccans and Algerians form the biggest part. This source of cheap labour has provoked resentment from a working class already suffering from stubbornly high unemployment.

This, plus infighting within the mainstream centre parties, has contributed to the popularity of Mr Jean Marie Le Pen, Front leader, who attracts around 13 per cent of the vote in national opinion polls and much more than that in some districts. Several senior politicians yesterday blamed him for contributing to the latest problem, an allegation dismissed by Mr Le Pen as an attempt to discredit him. He nevertheless accepted the Government's offer of an armed guard, after an unknown gunman fired five shots at the home of a local Front politician in southern France.

## EC prescribes for ailing E Europe

By David Buchanan in Brussels

THE EUROPEAN Commission yesterday set out some of its free-market prescriptions for east Europe's ailing economies, including the sequence in which the various capitalist potions should be taken.

Mr Henning Christophersen, the Commissioner responsible for macro-economic forecasting, predicted that if eastern Europe followed Brussels' advice, the region could move after 1992-93 from zero or negative growth to an annual rate of expansion of 5-6 per cent.

The six east European members of Comecon plus Yugoslavia would need to borrow some Ecu15bn-Ecu20bn (\$11.1bn-\$14.8bn) to cover their short-term financial needs for 1990-92, Mr Christophersen said. But the international capital markets were capable of providing the needed "private, profitable foreign investment" in eastern Europe, and he saw no need to increase the Ecu2.4bn which Brussels proposes in EC aid over the same period.

The Commission, for whom eastern Europe was unknown territory only a year ago, is still groping for answers to the economic policy questions posed by east Europeans. Requests for help keep coming in, and Mr Christophersen said he would soon be sending mis-

sions to Czechoslovakia and Romania.

Drawing lessons from its newly published report on Poland and Hungary, the Commission stresses the importance of taking a series of quick, logical steps to create market economies in eastern Europe. These would be:

• Privatisation should not take place before the "tutelage" system, under which ministries and companies arrange deals on taxes and subsidies, is dismantled.

• Reform must be credible, and pursued systematically, thoroughly and not too slowly, if the behaviour of people and companies is to change.

• Inflation must be stopped, as in Poland, before structural reform is started.

Mr Christophersen said the early plans of Poland, Czechoslovakia and Hungary for full currency convertibility had lessened these countries' interest in creating a payments union, topped up with hard currency by the EC.

Nevertheless, a payments union designed to help other east European countries and the Soviet Union settle their trade accounts "could be useful, at least for a transition", said the Commissioner, and the idea was still being studied in Brussels.

## In Romania communism is dead, but not the communists

The spectre of past involvement stalks an election marked by deep suspicion, writes Judy Dempsey

BY THE end of this week, the strains of the song "Don't Worry, Be Happy", which has repeatedly echoed across University Square in the centre of Bucharest, will no longer be heard.

By law, all demonstrations and gatherings are banned two days before the elections which take place on Sunday. For the first time in 45 years, Romanians will be able to vote freely for a constituent assembly.

The song, which is peppered with sharp and witty criticism of Mr Ion Iliescu, Romania's interim President, has become

didate for the Front for National Salvation.

So far, Mr Iliescu, who last month called the demonstrators holed up, has refused to meet their demands. He and the Front, which was catapulted into power after the overthrow of the regime of former dictator Nicolae Ceausescu on December 23, argue that the electoral law already excludes former Communist activists from standing in elections.

That law states that "persons who abused their political, judicial or administrative positions, who disregarded the fundamental human rights, or who organised or were instrumental in repression as part of the former Securitate, former police or militia forces are not eligible (to stand)". Mr Iliescu claims to have been a dissident rather than a Communist activist.

Many Romanians are sceptical. They feel that the law is not watertight enough to prevent the re-emergence of Communist influence under the guise of the Front.

That is the main issue in this bitter election campaign which is fuelled by intimidation and allegations of violence which, say the two main opposition parties, is sanctioned by the Front.

The National Peasants Party, whose president is Mr Corneliu Coposu, and whose presidential candidate is the 73-year-old lawyer Mr Ion Bocu, an émigré and millionaire, continually push home its loathing of communism to the electorate.

The strength of the 500,000-strong Peasants Party rests in the claim that this party, founded in 1929, and banned in 1947, is one of the few untainted by communist rule. In addition, they promise to return land to those who wish to farm it and to usher in a policy of privatisation and a market economy.

Yet the message is not getting through to peasants who remain suspicious of the inter-war period when German capital and the old feudal Boyar or aristocracy ruled the land, a point which Front candidates are adept at communicating.

The National Liberal Party, also founded in 1929 and banned in 1947, led by Mr Radu Campeanu, its presidential candidate, is less vocal in its anti-communist rhetoric. It also endorses privatisation, including an accelerated trans-

sition to private ownership in agriculture, services, and crafts.

Although its power base rests among the liberal intelligentsia and sections of the younger generation, the party's support is neither solid nor large enough to beat the Front.

The Front is not only the largest of the parties - it has a million members - but it has a machine and organisation at its disposal.

The machine is the media, which the Front still monopolises in spite of the sacking in January of Mr Aurel Drago

Munteanu, the pro-Front head of radio and television.

Its organisation is embedded in the old Communist Party structures of the enterprises and the bureaucracy which has enabled it to consolidate its position throughout large parts of the country.

Thus, in the early days of the Revolution, because it was the only power in the country, it won immediate support from the peasantry by giving them the right to own, but not to sell, their plots of land.

It won over the miners by giving them pay increases and

the workers by promises that economic reforms would not entail unemployment or the "sell-out of Romania to foreign capital". It captured the hearts and votes of the 2.5m gypsies by returning to them their gold coins which the Ceausescu regime had confiscated. In short, the Front are the only real operators.

Yet the Front has never renounced the communist system, an omission which fuels the scepticism among certain sections of the population. Instead, it repeats the phrase that "communism is dead".

Nor has it purged the gargantuan bureaucracy and the ministries.

"How can you purge nearly 4m former Communist Party members," asks Mr Adrian Nastase, the Front's spokesman. "Some of these people are talented. We need them."

Talent will be a premium whoever wins the elections. The country's shattered political, economic and social institutions have to be rebuilt against a background of a moral climate contaminated by decades of corruption and blackmail.

## EASTERN EUROPE ELECTS



Romania

a rallying call for the hundreds of people who have camped out in the square for three weeks.

The people, many from Timisoara, the cradle of the Revolution, want one thing: the implementation of article 8 of the Timisoara Declaration. Drawn up on March 11 by a group of civic and intellectuals from Timisoara, the declaration insists that the electoral law should forbid former Communist activists and Securitate (secret police) officers from running as candidates on any electoral list during the first three consecutive legislatures... and that the electoral law include a special paragraph forbidding former Communist activists from standing as candidates for the position of President of Romania.

More telling, article 8 adds that "their (the Communists') presence in the country's political life is the main source of the tension and suspicions that currently plague Romanian society".

If implemented, this article would exclude Mr Iliescu, a former central committee secretary during the 1970s, from standing in the election on Sunday as the presidential can-

## Experts demand closure of E German N-plant

EAST GERMANY'S main nuclear power station is so dangerous it should be closed immediately to avoid a Chernobyl-like disaster, according to a group of environmental experts, Reuter reports from East Berlin.

A report by seven non-government experts, from both East and West Germany, condemned security systems and other equipment in four reactor blocks at Greifswald power plant near the Baltic coast as totally inadequate.

"If the main circulation system failed there would be a similar event to Chernobyl," Mr Norbert Meyer, a Greifswald physicist, said at a briefing to launch the report.

"The danger of a catastrophic falling of the reactor pressure vessel cannot be averted through re-equipping or technical modifications," the 100-page document said.

It criticised the lack of fire

precautions at Greifswald and warned that pipes could burst at any moment. It also said East Germany's former Communist authorities had long known about the poor safety standards.

All further discussion about the plant should aim at shutting down its four existing reactors, the report said. Two of the four working blocks have already been temporarily switched off, but four other blocks are still being built.

East Germany's central Round Table of government officials and opposition activists ordered the report in January after disclosures of poor conditions at Greifswald.

The environment ministries of both East and West Germany are working on a separate joint study of the plant.

The April 1986 disaster at the Chernobyl power station in the Soviet Union caused wide radioactive contamination.

## How I pleased my boss by upsetting him.

## The Hewlett-Packard guide to quality output. HP LaserJet III.

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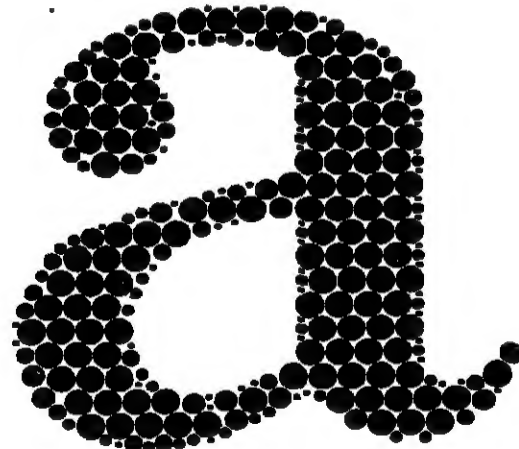
We'd all worked hard on the facts and figures. Now we had to make them look good. That was the job of our new Hewlett-Packard LaserJet III printer.

HP LaserJet III uses something called Resolution Enhancement Technology. It produces extremely even letters, by using very dissimilar dots.

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The result is text and graphics that are clearer than ever before.

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"P-pardon?"

"Why are we typesetting our documents? This must have cost a fortune!"

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"I like the bit about the big dots and the little dots," he said.

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## BRITISH VIRGIN ISLANDS

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## OVERSEAS NEWS

# Israeli reaction to Soviet Jewish influx attacked

By Hugh Carnegie in Jerusalem

ISRAEL has reacted slowly to the influx of Soviet Jews and lacks clear policies on how to cope with their absorption, the state comptroller said in a critical annual report published yesterday.

With responsibility for absorbing the biggest wave of immigration for years diffused between a number of ministries, which frequently squabble over resources, the comptroller, Mr Miriam Ben-Porat, called for the establishment of a central authority to take command of a situation "crying out for action."

She warned of serious consequences for the country if it failed to cope with the influx, which began last year and is now set to reach 150,000 this year. More than 30,000 Soviet Jews arrived in the first four months, compared with 13,000 in the whole of 1988.

Israel sees the Soviet inflow as an historic boost to its strength, mirrored by Arab fears that it poses a serious demographic and strategic threat to them. But much attention is now focused on the

immediate difficulties it will pose for a country of only 4.5m people recently suffering economic stagnation.

The comptroller's report said that there was no clear policy for providing jobs for the Soviet immigrants at a time when unemployment is already high. It also sounded the alarm over delays in building new housing.

A recent report by Bank Hapoalim estimated that average annual new housing starts of 20,000 units needed to increase by 2% times. It predicted a shortage by the second half of this year without further investment.

The Government, which reports only 8,000 new housing starts so far this year, plans accelerated construction of 45,000 new flats and is considering a range of incentives and regulatory changes to help.

The appeal began in Jerusalem yesterday of Mr John Demjanjuk, a Ukrainian convicted in April 1988 of being a Treblinka Nazi concentration camp and sentenced to death.

## NEWS IN BRIEF

## Mandela at White House

Mr Nelson Mandela, deputy president of the African National Congress, recently freed from 27 years in prison, will meet President George Bush at the White House next month, organisers announced yesterday. AP reports from Washington.

Mr Mandela will address a joint session of Congress - the highest honour lawmakers can give visiting dignitaries - and hold meetings with congressional leaders. He will also be feted with a ticker-tape parade in New York City and visit four other US cities, they said. The ANC in New York said Mandela would arrive in the US on June 20.

## US and Iran sign claims deal

The US and Iran have signed a \$106m agreement to settle some 2,750 US financial claims arising from the Iranian revolution, Reuters reports from The Hague.

The settlement clears away a host of small claims cases before the Iran-US Claims Tribunal in The Hague and opens the way for talks on Iran's huge claim for \$11bn over US military contracts broken after the 1979 revolution. Both Iran and the US have denied that the agreement, reached after months of negotiation, is linked to Iranian help in the release of US hostages.

## Mystery trip by Chinese official

Xu Jiatun, 74-year-old former head of the Xinhua News Agency in Hong Kong, China's de facto embassy, is in Los Angeles with five of his 10 children, Peter Ellingsen writes from Peking. He flew to the US early this month without permission after obtaining a visa in Hong Kong. Zhou Nan, the hardline official who took over from him, said "Xu does not have any problem", but his trip has upset Peking and caused tight controls in foreign embassies.

## Iraq aims for Beirut peace

The Iraqi Government is attempting to mediate in the conflict between Christian Lebanese Gen Michel Aoun and Mr Samir Geagea, the Phalangist militia leader, Lara Marlowe reports from Beirut.

The conflict, which started on January 31, has led to the deaths of more than 1,000 people. Eleven more died and 50 were wounded in a flare-up at the weekend.

According to the Beirut newspaper An Nahar, President Saddam Hussein of Iraq wants to resolve the inter-Christian conflict before the special Arab League Summit which is scheduled to be held on 28 May in Baghdad.

Gen Aoun sent his relative Brig Gen Fouad Aoun to Baghdad as his representative, while Samir Geagea dispatched Mr Pierre Risk, the chief of the Phalangist's "foreign intelligence service."

The two men are reported to have met Mr Tariq Aziz, the Iraqi Foreign Minister.

## Ivory Coast protest by conscripts

Hundreds of disgruntled army conscripts staged an unprecedented protest in the Ivory Coast on Monday but agreed to return to their barracks after promises from President Felix Houphouët-Boigny, Reuters reports from Abidjan.

Nervous soldiers, wearing khaki caps and green-olive fatigues, took up positions outside the state radio building in the centre of the former capital Abidjan just before dawn, local residents said.

# Australian indicators suggest a prolonged slowdown

By Kevin Brown in Sydney

FURTHER evidence emerged yesterday that the Australian economy is heading for a prolonged slowdown, if not a recession.

The index of leading indicators published by Westpac Bank and the Melbourne Institute of Applied Economic and Social Research fell by 1.4 points in March to 125.6, and is now seven points, or 5.3 per cent, below its peak in May last year.

The leading index is regarded as a reliable indicator of economic activity because it has correctly forecast every major change in the Australian economy since the 1950s.

Mr Bob Graham, Westpac's chief economist, said there was no doubt that the economy had eased, with certain sectors being hit severely. "The

subdued performance of the leading index for almost a year now suggests [that] whatever the depth of the present slowdown, it will continue for the rest of the year, at least," he said.

Dr Ernst Boehm, of the Melbourne Institute, said it was too early to say whether the slowdown would develop into a severe recession such as that experienced in Australia in 1982-83.

Dr Boehm said the resilience of some indicators, such as building approvals and demand for new telephones, indicated that a major recession may not be imminent.

However, many analysts continue

to suggest that Australia will prove to be in technical recession - defined as two successive quarters of negative growth - when figures for the March quarter are released at the end of this month.

Mr Paul Keating, the Treasurer, has admitted that the March quarter could show a contraction in gross domestic product, but has also suggested that negative growth of 0.2 per cent recorded in the December figure could be revised.

Mr Keating was at the centre of a public row about Australia's economic prospects yesterday as political tensions generated by the slowdown triggered disagreement over policy options among Cabinet ministers.

The row followed comments by Sen-

ator John Button, the Industry Minister and government leader in the Senate, casting doubt on the ability of the recently re-elected Labor Government to continue to deliver rising living standards.

Senator Button said it was not "fair or appropriate" for the Government to promise rising living standards when Australia was "in the midst of an economic downturn of some severity."

His remarks were interpreted as support for criticism of government policies by Senator Peter Walsh, a former Finance Minister, who resigned from the Cabinet after the March general election because he doubted ministers had the will to confront Australia's economic problems.

Senator Walsh has repeatedly

suggested that Australia's problems are more deep-seated than has been admitted by Mr Keating.

Mr Keating defended his policies at a press conference during which he urged other ministers to stop wasting Cabinet time by commenting on the economy. He also took the opportunity to criticise Senator Button's performance as Industry Minister.

Mr Bob Hawke, the Prime Minister, also rebuked Senator Button during a parliamentary debate on a censure motion launched by the opposition to take advantage of Cabinet disunity on the economy. Mr Hawke, who survived the censure motion thanks to his parliamentary majority, gave his full backing to Mr Keating in an attempt to restore Cabinet discipline.

## Jordan halts march on West Bank

By Larina Andoni in the Jordan Valley

JORDANIAN security forces dispersed thousands of pro-Palestinian demonstrators with tear gas yesterday to stop them trying to cross the Jordan River into the Israeli-occupied West Bank.

The unprecedented march in support of the 30-month-old Palestinian uprising against Israeli occupation ended in violence when demonstrators defied calls by the organisers to stay clear of the Alnabiy Bridge, known in Jordan as the King Hussein Bridge.

Waving Jordanian and Palestinian flags, demonstrators wearing Palestinian black and white checkered head dresses stood on the sandy hills overlooking Israeli border points and shouted pro-Palestinian slogans.

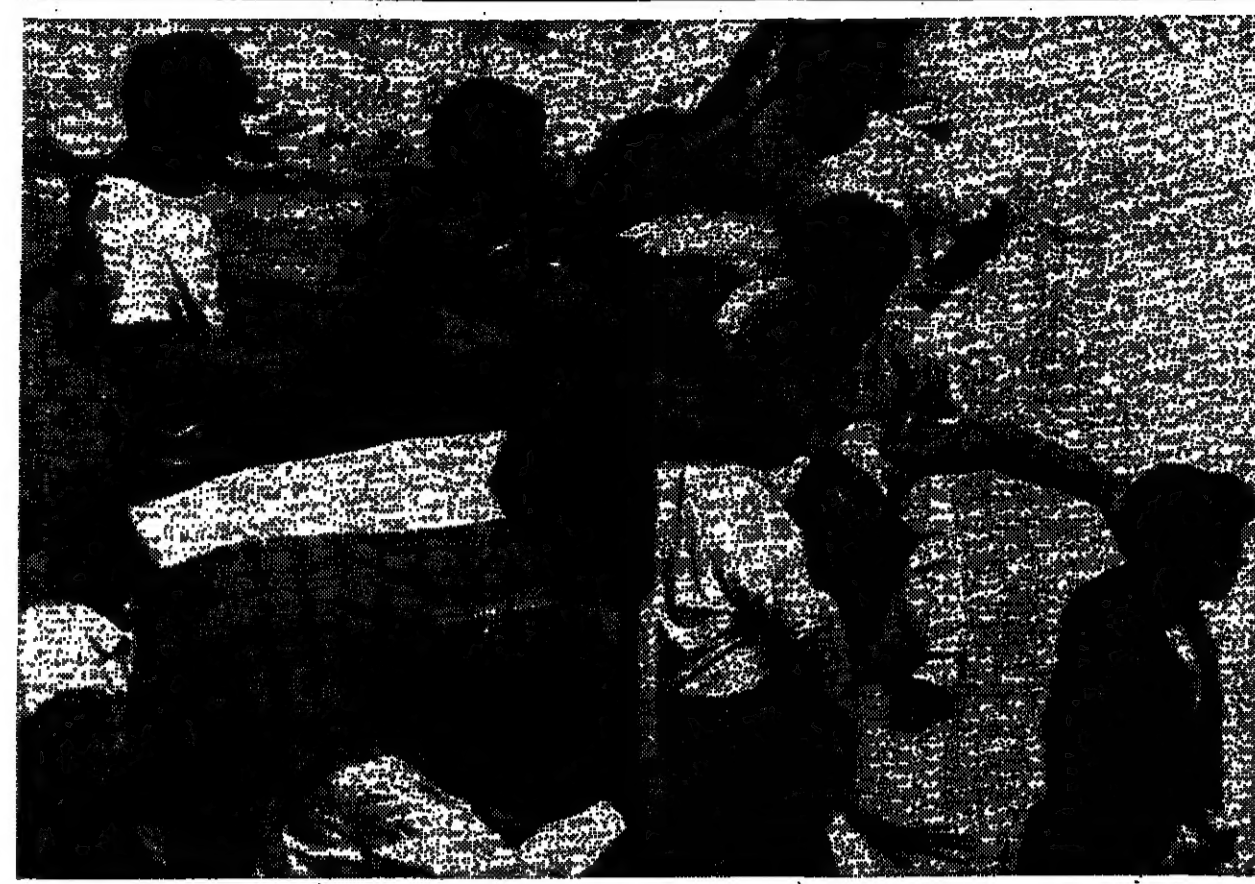
"Long live the PLO (Palestine Liberation Organisation)," they cried, chanting revolutionary songs.

Security officials said more than 50 participants had been admitted briefly to hospital.

Leaders of Jordan's influential professional associations, which organised the march, regretted that emotions had got out of hand, but said they hoped the demonstration would step up pressure on Arab governments to fight against Soviet Jewish immigration to Israel.

Arabs are angered by the arrival of thousands of Jews to Israel, and Palestinians in particular fear they are being squeezed out of Jerusalem by the new arrivals. An Arab summit on the issue is to be held in Baghdad in two weeks.

Soviet Jewish immigration equals Palestinian transfer," said "The US is



Marchers carry an injured youth who inhaled tear-gas after protesters were beaten back from attempts to cross the Jordan

the first enemy of the Arab Nation" were among the slogans of the march.

However, chants by young people supporting armed struggle and condemning "Arab repression and silence" reflected a militant mood and a growing frustration with the slow pace of the Middle East "peace process". Many Jordanians are of Palestinian origin. The

march was also intended to underline what Palestinians see as their right to return to their previous homes in Israel and the territories. Jordanians here have strong suspicions that Israeli right-wing leaders want to annex the territories, settle Soviet Jews there and

force a mass exodus of Palestinians to Jordan.

"Today it is very clear to the Arabs that they are witnessing the final stages of Israel's scheme to make its occupation of the West Bank irreversible," said Mr Adnan Abu Odeh, King Hussein's political adviser.

## UN warns of global population surge

By Peter Montagnon, World Trade Editor

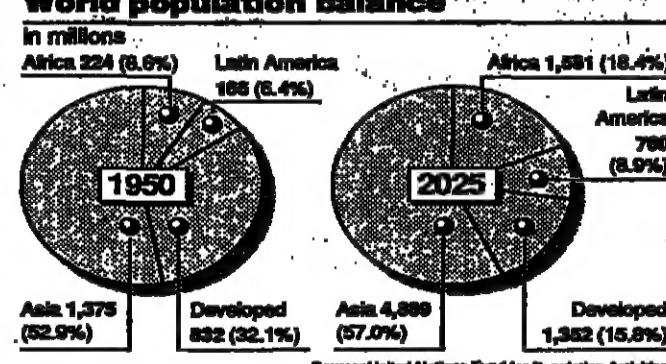
THE WORLD'S population will virtually triple to 14bn over the next century, causing critical damage to the environment, if nothing is done to check its current rate of growth, United Nations report warned yesterday.

Projections in the middle of the 1980s that world population would eventually stabilise at just over 10bn have turned out to be over-optimistic, the UN report for Population Activities (Unpop) says in "The State of the World Population".

The slowdown in fertility rates has been slower than expected. Population is now growing particularly rapidly in Africa and southern Asia, poor regions least equipped to cope, Unpop said.

Its report is likely to reinforce the emphasis being placed on population growth by development policy-makers. It also confirms the same issue was highlighted by the Organisation for Economic Co-operation and Development in last

### World population balance



Source: United Nations Fund for Population Activities

winter's annual Development Assistance Committee report. Already the world population has reached 5.5bn. It is growing faster than ever before at increments of 90m to 100m a year, Unpop says.

Reducing population growth, especially in countries with the highest rates of growth, will be a crucial part of any strategy

of sustainable development," the report says.

According to Ms Nafis Sadik, Unpop Executive Director, who wrote the report, this will mean a shift from purely economic indicators for development towards social priorities.

The report shows that even very poor countries could curb their rate of population growth if they had equitable distribution of such services, she told a press conference.

This was a factor which the International Monetary Fund and World Bank needed to take into account when designing adjustment programmes.

In many developing regions, but particularly Africa, women were heavily engaged in food production as well as its preparation and fuel gathering, the report says. This has encouraged them to have additional children to lighten the load.

Widening their options and hastening their equality would help secure lower population growth.

## Kuwait arrests pro-democracy activists

By Victor Maflet

KUWAITI authorities have arrested two pro-democracy activists campaigning for the restoration of parliament, although 10 others detained last week have been released on bail.

The two held on Sunday night are Mr Ahmed al-Rabai, an Arab nationalist university lecturer and former MP, and Mr Ali Durrak, a businessman. It was not immediately clear what charges they would face, but the Government has accused previous detainees of arranging illegal meetings and distributing leaflets.

Kuwait's ruling al-Sabah family is preparing ahead with plans for elections to an interim National Council on June 16, but opposition politicians say the new council is a toothless body to supplant the National Assembly dissolved by Sheikh Jaber al-Ahmed al-Sabah, the Emir, in 1964.

## Violence in Philippines as US base talks open

By Greg Hutchinson in Manila

RIOT POLICE battled hundreds of left-wing demonstrators protesting against the US military presence in the Philippines yesterday as the two countries opened talks on the future of America's largest overseas bases.

The US called for a new partnership that would allow American military bases to remain in the country into the next century. But Mr Raul Manglapus, Philippine Foreign Secretary, told Mr Richard Armitage, special US negotiator, that Washington must first compensate for money unpaid under a current accord.

Police used tear gas and smoke grenades to disperse hundreds of left-wing demonstrators protesting in Manila against the bases.

Witnesses said several people were injured, including four policemen, and about 80 demonstrators were arrested in clashes around the tightly guarded Central Bank building where the talks were held.

The demonstrators included Roman Catholic priests who carried signs reading "Sovereignty not for sale" and "US bases, cancer of society."

The negotiations will determine whether the United States retains Clark Air Base, the Subic Bay naval base and four smaller installations after their lease expires on September 16 1991.

President Corason Aquino has refused to say whether she would support an extension. Mrs Aquino's son, who is from Clark, helped suppress a military revolt that nearly toppled Mrs Aquino's administration.

During the opening session, Mr Armitage said the United States would remain a Pacific power regardless of the outcome of the talks, expected to last until the end of the year.

Mr Armitage, a former Assistant Secretary of Defence, urged the Philippine Government to decide whether the installations served their defence interest.

"If we do not truly believe that there exists compelling, mutual interest between the Philippines and the United States, then we have precious little to discuss other than the terms of an amicable separation," he said.

Mr Manglapus said the US had often fallen short of its financial commitments to the Philippines.

## Military crushes Kashmir faith in secularism

David Housego returns to an occupied state united in its hostility towards India

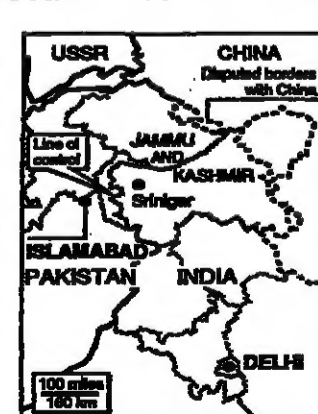
IF THERE is a symbol of the terrorist forces of its people who bring a visitor their tale of humiliation and brutality during four months of virtual military rule.

The massive display of strength by the Indian military forces - including long spells of curfew that have confined people to their homes and the relentless pressure of house-to-house searches - has succeeded in sapping much of the strength from the insurgency movement.

There are no longer the massive pro-independence demonstrations of earlier this year - fired by the enthusiasm of crowds who seemed to think that with a another push the Indian Government would yield to their demands. "We are a people in the grip of fear," said one young Kashmiri Muslim.

The Jammu and Kashmir Liberation Front (JKLF), the main insurgency movement, has taken a pounding from the security forces. "We have broken their organisation and we know all there is to know about them," says a senior official. Foreign correspondents, banned from Kashmir in January, are quietly being let back.

But the cost has been immense and may have brought India only a brief respite. If India can by force hold Kashmir within the union, Kashmiris now see themselves as united in their hostility to India and living



under an army of occupation. "Maybe they don't want to fight," says a lawyer. "But they do not want to turn back. So they have to continue."

India's democratic traditions have suffered the damage that comes from using force to cow a segment of its own people - an operation that at the same time brings the armed forces into disrepute.

Secularism - the belief that different creeds can live together and which has been the cornerstone of India's identity as a nation - has been lost from sight with the departure of the Hindu minority who dominated hospitals, education, banks, insurance and the distribution of pharmaceuticals. Kashmiri Muslims increasingly feel that their religion itself has become an offence.

Industry has come to a halt.

In what is normally the height of the tourist season - with the snow-lined ridges and intense green of the valley drawing Indians in their millions up from the suffocating heat of the plains - the hotels and houseboats are empty. The endless rows of handicraft shops remain closed.

The traumatised face of Baboo Intiaz Ahmad, 19, a young man of almost film-star looks with a great bush of black hair, recounts how, during interrogation by para-military forces, he was suspended from a rotating ceiling fan.

In a back yard in the Khwaja Bazar district of old Srinagar, he displayed four cigarette burns on his arms and legs and deep bruising on his back from being trodden on.

The painful stammer of a 50-year-old villager, Ghulam Mahdadar, released after 18 days of interrogation, told at his village of Haseebpur, near Baramulla, how he had been hung from a tree and beaten with clubs. In the same crowded room others showed the marks of chains on their legs.

At the Idgah in Srinagar - the open field where Muslims celebrate the Eid festival - on one side a rough martyrs' grave has been dug for militants and others who have recently been killed. A young man shouts in a characteristic mixture of bravado and desperation. "Everyone here is prepared to die. We have only two choices to die or be liberated."

An old man sobs in Court

Lane in Srinagar. He lost his two sons in cross-fire the day before.

Among the most distraught are the doctors. At the SMSH hospital, doctors say that most of the wounded brought in have had to be treated for head, neck and chest injuries - suggesting that the para-military forces have fired high.

At the Lalla Ded maternity hospital - the largest in Kashmir - Dr Mir Nazeer Ahmed, the Chief Medical Superintendent, describes the last five months as a nightmare. He says that he has had to manage with only 20 per cent of his skilled staff. "Most of the staff is Hindu," he said. "They have left, packed up and gone without even telling me."

Medicines have been in short supply, blood banks have run out of stock because of the continuing curfew and most of the complicated cases have been referred to the hospital because of the loss of staff at smaller clinics.

One of the deepest long-term scars in the Valley could well be the collapse of the former good relations between Muslims and Hindus - often seen as a model for the rest of India. Muslims account for 90 per cent of the 4m population in the Valley.

Many left in panic after some Hindus had been killed by Muslim militants. But others also seemed to have left with the tacit support of the authorities - nervous that incidents in Kashmir could spark off com-

munal riots elsewhere in India and provoke demands from the radical Hindu BJP party for the Government to take an even tougher line in Kashmir.

It is still unclear how many Kashmiri Muslims have been arrested during recent months. Probably several thousand have been taken into custody for interrogation - with most released soon after. Mr Jagmohan, the Governor, says that less than 500 are being detained for longer periods - against unofficial estimates of more than 1,000.

Over the past week, the curfew has been lifted in Srinagar during most of the day. Officials say they hope to reduce the numbers of regular troops and paramilitary forces that have been deployed.

In further efforts to show that normal conditions have returned, the administration moved from Jammu (the winter capital) to Srinagar last week - though militants successfully marked the occasion by getting all shops to close.

Primary schools are officially open, though at St Joseph's near Baramulla only 10 per cent of the children have showed up. High schools and universities are due to open this week - but several high schools are still being used as barracks and staff are reduced by the departure of the Kashmiri Hindus.

In many ways however, these improvements remain illusory. Hatred of India and Indian troops has become

almost universal in the Valley - providing a fertile ground for continuing insurgency.

"The whole Valley is in revolt," says a senior Kashmiri official.

Militants cannot operate without the support of the people and their support. They still enjoy enormous sympathy - and probably more amongst the Kashmiri police and administration.

The government claims that many sophisticated weapons are coming across the border - AK47s, rocket-launchers, anti-tank weapons and anti-personnel mines. Fears of escalation lie behind the strong recent Indian warnings of the dangers of war.

In political terms the Indian Government is operating with its hands tied behind its back because it feels unable to offer further concessions over autonomy to help meet Kashmiri aspirations. Much of Crime Minister Mr V.P. Singh's constituency in Delhi - including the BJP on which he counts for support in parliament - would like to see Kashmir brought under a tighter leash.

Kashmiri Muslims feel that they are now so distrustful in the rest of India that they have no future there.

"For a long time to come," says one lawyer, "even if nothing comes out of this (movement for independence), it is going to be hard for Kashmiris to live in India. That is why people do not want to relent. Kashmiris have little choice."



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## WORLD TRADE NEWS

## Computer chiefs seek dumping-law changes

CHIEF executives of 11 of the biggest US computer manufacturers yesterday took a united stand on US high-technology trade policy affecting dumping and foreign market access, Louise Kahoe reports from San Francisco. The powerful industry group issued recommendations for changes to anti-dumping laws and US access to foreign markets.

The recommendations of the Computer Systems Policy Project (CSPP) seem designed to exert a moderating influence on US actions to resolve the continuing US-Japanese semiconductor trade dispute, as well as establish more effective

mechanisms for dealing with high-technology trade disputes. The CSPP was formed last year at the urging of International Business Machines. Members include the chief executives of Apple Computer, Compaq Computer, Control Data, Cray Research, Digital Equipment, Hewlett-Packard, NCR, Sun Microsystems, Tandem Computers, Unisys, and IBM.

"This is the first time the computer industry has taken a unified approach on trade issues," said Mr Scott McNeely, chief executive of Sun Microsystems. "We have worked out a consensus. Now you are

going to hear us all singing the same song."

"Together, we will be more influential, our opinions will carry more weight," added Mr John Young, chief executive of Hewlett-Packard and chairman of CSPP.

The 1986 US-Japanese semiconductor trade agreement served as "the wake-up call" to the US computer industry, said Mr Kenneth Kay, executive director of CSPP.

The five-year pact is due to expire next year, and as major buyers of semiconductor devices, the computer industry executives want to have a greater say in what the next

steps in resolving US-Japanese semiconductor trade friction will be. The CSPP proposes a new approach to dealing with disputes over US access to foreign markets that "departs sharply from static approaches in which market-access goal is established at the outset as a fixed numerical target," as was the case in the US-Japan semiconductor trade agreement.

The most important step the US can take to improve market access worldwide is to strengthen the GATT, the industry group stated. While bilateral initiatives were essential, "the emphasis should be on results, not expectations,

commitments or sanctions."

The CSPP proposals also represent an attempt to influence the US position on dumping and market access in the GATT negotiations. "We are firm in our opposition to managed trade," the group stressed. Anti-dumping laws should be modified, "expressly to permit pricing below average unit costs during the introductory period of new products."

While details of the CSPP proposal differ significantly from stances taken by other US industry groups, the Semiconductor Industry Association yesterday welcomed the CSPP proposal.

## Shell links with China for \$2.5bn oil refinery

SHELL has linked with five mainland China corporations in a plan for a \$2.5bn (£1.4bn) oil refinery and petrochemical plant at Huizhou, Guangdong, John Elliott reports from Beijing.

Shell expects a substantial stake, believed to be about 50 per cent. It would be China's first foreign joint venture for a new oil refinery and Shell's first major investment in China since 1982.

An application has been lodged with Beijing's State Planning Commission to carry out a feasibility study, which could start by the end of this year. A go-ahead would be significant, because it would put the project into China's five-year economic plan.

Li Peng, China's premier, is believed to have said he approved of the application going to the planning commission. This means the project has some support in central government. Shell's partners are China National Offshore Oil Corporation, China National Petrochemical Corporation, China National Petroleum Corporation, China Merchants, and the Guangdong provincial authority. The plant would process 5m tonnes of crude oil a year.

## Moscow 'working on problem of late import payments'

MOSCOW is working to put right the problem of tardy payment for goods which has given rise to complaints from western exporters, Lord Trefgarne, UK Trade Minister, said yesterday, Reuters reports from London.

UK ministers had raised complaints from about 12 companies with the Soviet authorities and these were being resolved. "I'm glad to say the response has been encouraging," he added.

UK officials said the problem seemed largely administrative, as the central Soviet authorities had devolved responsibility for foreign trade to individual foreign trade organisations and companies.

Some foreign trade bodies

did appear keen to delay payments, but this was not Soviet government policy. The authorities were taking steps to restore the country's credit-rating by ensuring payments were made, they said.

These administrative changes and parallel reorganisation of the government structure were causing uncertainty and confusion among western businessmen, Lord Trefgarne went on.

He dismissed a Japanese estimate that Soviet payments to Japanese companies, now more than three months overdue, totalled over \$500m (£300m). The amounts involved were relatively small, but he declined to quantify them.

## Washington aims for compromise on textile trade

THE US yesterday sought a compromise on liberalisation of world trade in textiles and clothing in the Uruguay Round talks. This comes three days after Mrs Carla Hills, US Trade Representative, warned US manufacturers that insisting on continued protection could imperil outcome of the round, William Dullforce reports from Geneva.

In a key modification of the US approach, Mr Ronald Sorini, chief US textiles negotiator, proposed that exporting countries at present subject to import quotas under the Multi-Fibre Arrangement (MFA) be guaranteed mini-

mum quotas during the phasing-out of the MFA. The quotas would be tradeable.

The paper Mr Sorini tabled with the textiles negotiating group limited the transition time to 10 years, and indicated it could start on August 1, 1991, when the current MFA expires. The US had earlier favoured a longer transition period, starting January 2, 1992.

The latest US proposal seeks a compromise between its call for a switch to a system of global quotas at the start of the transition period, and most other countries' wish to dismantle gradually the present MFA bilateral quotas.

THE Council of the General Agreement on Tariffs and Trade is expected to approve the Soviet Union's application for observer status in the world trade organisation tomorrow, William Dullforce reports. A definition by the council chairman of what observer status entails should meet US reservations while Japan, which had asked for more time to consider the matter, is understood to be satisfied.

Textile and farm trade reforms were highlighted last month by Mr Arthur Dunkel, GATT director-general, before trade ministers met informally in Mexico, as two key areas for breaking deadlocks.

Mr Sorini said the changes in the US position on textiles showed it wanted to be flexible. But the US has not

dropped its basic stance that a system of gradually expanding global product quotas, for which suppliers would compete, is the best mechanism for switching from the MFA to full integration of textiles and clothing in GATT.

Under the change, exporters now subject to MFA quotas would automatically have a guaranteed minimum quota for each product, staying constant in the transition period. But one supplier could not account for more than 15 per cent of the total. Exporting countries would be able to buy and sell their quotas.

That part of the total quota for any product not covered by guarantees would form a global basket open to competition from all suppliers, including those holding individual country guarantees. The global basket would serve as a safeguard mechanism which governments could use to protect domestic producers against excessive import surges.

## Venezuela investment up

VENEZUELA has reported that direct, registered, foreign investment stood at an estimated \$2.4bn (£1.4bn) at the end of 1989 - a rise of 14 per cent, or \$336m, over the previous year, Joe Mania reports from Caracas.

Most new increases in foreign investment in Venezuela over the past decade reflected reinvestment of retained earn-

ings rather than inflows of fresh capital. Foreign executives in Caracas believe that even though international companies brought in some fresh capital last year, most of the 1989 rise was still a product of reinvestments or debt-equity swaps.

Earlier this year, Caracas decided sweeping liberalisation of foreign investment rules.

## Phone club days are numbered

Change is on the line for global cartel, writes Hugo Dixon

THE DAYS when the world's telephone companies could agree among themselves on a cosy club to control how the international telecommunications market should be regulated are passing.

A meeting later this month of a group within the International Telecommunications Consultative Committee (CITT), the Geneva-based telephone club at the centre of a storm over excessive international phone call pricing, could change the provisions that restrict competition and allow cartel practices.

The Financial Times recently reported that users across the world were being overcharged by more than \$10bn a year for international calls and that prices were on average three times cost as a result of such practices among the world's phone companies.

Two of the pillars on which the cartel rests are enshrined in the CITT's recommendations - the controversial Decree of the Blue Book. These are the accounting rate system, a method of sharing the revenue from international calls which penalises companies that cut their prices; and restrictions on private circuits which are designed to keep non-cartel members out of the market.

A meeting of a working party of the CITT's study group 3, which begins in Geneva on May 23, could bring substantial change to the latter restrictions. It will discuss sweeping plans put forward by the US to liberalise the D-series restrictions on private circuits.

A rival French plan, which calls for more modest liberalisation, will also be on the table. Mr Theo Ermer, the CITT's director, argues that the restrictions are out of date and need change.

The change in the air is partly because organisations such as the European Commission and trade ministries, in the context of the current negotiations on extending the General Agreement on Tariffs and Trade (GATT) to services, are taking an interest in telecommunications.

It is also because the composition of study group 3 is changing, as countries set up independent regulatory bodies to oversee their phone companies. The US, the UK, Japan, France, West Germany and a number of other countries will be sending officials from their ministries as well as delegates from their phone companies to the meeting.

Whereas the phone companies have traditionally looked only to their own interests, the ministries have to take users' interests into account. One user organisation, the International Telecommunications Users Group (Intug), will be directly represented at the talks.

The restrictions on international private circuits are important for two reasons. First, they have held back the development of enhanced telecommunications services such as electronic mail and access to data banks. Private circuits are the building blocks for such services.

An unpublished report by the Organisation for Economic Co-operation and Development says that strict adherence to the CITT's recommendations would prevent the supply of such services. It says the "recommendations, although

they are not binding, have tended to form the basis for national policy telecommunications frameworks and have been applied in a binding way by a number of countries."

What is more important, the restrictions on private circuits close off what is perhaps the quickest way of cracking the cartel on international calls. If private companies were allowed to lease circuits off the cartel members in bulk and resell the capacity to third parties, they would be able to undercut the prices of international calls. The phone companies would then have to cut prices to stay competitive.

This route to introducing competition was chosen by the US in the early 1980s. It had quick results because new operators could start offering services immediately without having to build their own networks.

The approach has yet to be



tried in the international arena because no country apart from the US allows resale, although the UK's Office of Telecommunications is examining the matter. Agreement would be needed by the international companies at both ends of the circuit before an international service could be provided.

Mr Bradley Holmes, assistant secretary of state at the State Department responsible for telecommunications, says the US will be pressing for four changes to the restrictions:

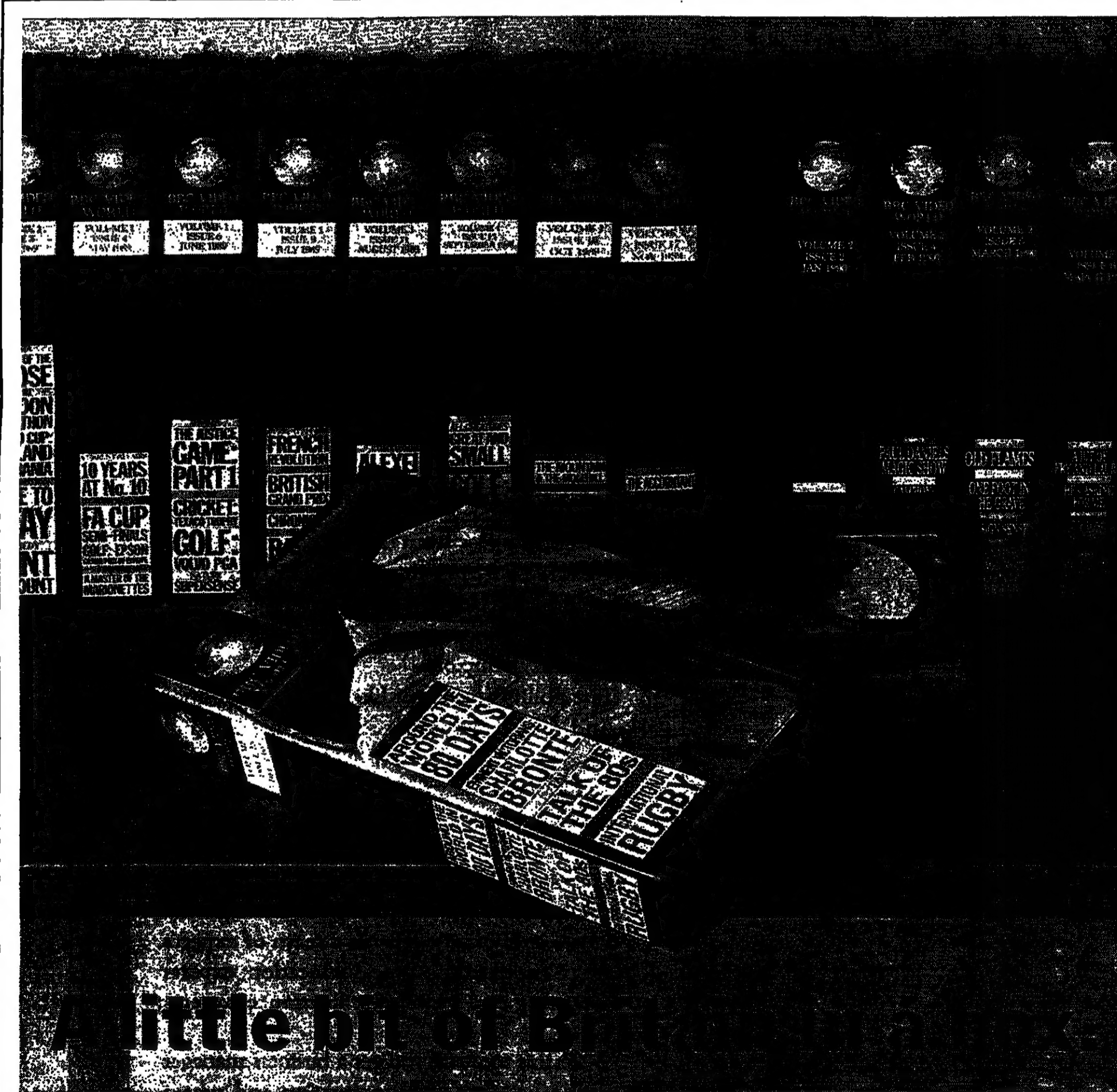
- Users should be able to resell space on their circuits to others.
- They should be able to connect their private circuits to the public network. For example, a company in New York should be able to use its private network to route a call to Paris and use the public network to connect it to anywhere else in France.

- Phone companies should offer private circuits at cost. A study last year by Ovum, the UK telecommunications consultancy, found that Europe's phone companies were pricing international circuits at between four and 20 times cost.
- Private circuits should be priced on a flat-rate basis instead of customers being charged on the basis of how much they use their circuits.

Volume-related pricing is recommended by the CITT to blunt the competitive threat of private phone operators.

France has recently modified its position. Whereas previously it opposed liberalisation on all four counts, it is now holding out only against the most important liberalisation measure - allowing private companies to resell capacity on circuits. It opposes such radical deregulation on the grounds that it would lead to private companies making easy money by "cream-skimming" the most profitable areas without adding any value themselves.

Given that the CITT makes decisions on the basis of consensus, some compromise between the French and US positions is likely.





## AMERICAN NEWS

## Tribes seek debt swaps for Amazon land rights

By Sally Bowen in Lima

A NOVEL alliance of indigenous leaders and environmentalists in Peru has proposed swaps of external debt for territorial rights, the land involved to be directly managed by the tribal peoples.

The proposal came at a three-day conference in the upper Amazonian Peruvian town of Iquitos. It was called by the Co-ordinating Body for the Indigenous Peoples of the Amazon Basin (Cobapi), which groups organisations representing 220 indigenous nations from five Amazonian countries.

The conference chairman was Mr Evaristo Nugues, a 40-year-old Ayacucho, an indigenous leader. Participants included the World Wildlife Fund (WWF), Greenpeace, the National Wildlife Federation, Conservation International and Friends of the Earth.

Indigenous representatives heavily criticised two big debt-for-nature swaps in Bolivia and Ecuador. The deals, first proposed by the WWF in 1987, have involved some debtor countries in reducing hard-currency debt. In exchange for foreign life refuges. Conservation organisations buy the deteriorated debt paper, which is converted into local currency, bonds, the interest on these being used to preserve and manage national parks.

The potential inflationary impact of such swaps makes them an unlikely mechanism for substantial external debt reductions, and only small sums have been involved in the past two years. Some national and international bodies oppose them, arguing they tacitly confer legitimacy on the external debt.

But Cobapi attacked governments for negotiating the future of their homelands without consultation. National parks in the Amazon basin are home to more than 100 people, many of them tribal. Also, debt-for-nature swaps have failed to curb destructive mineral and timber exploitation.

The conference called for recognition that indigenous peoples are the key to guaranteeing the future of the Amazon region on behalf of humanity. Effective defence of the Amazonian biosphere means defending indigenous territory and promoting traditional models of life and resource management, they said.

Environmentalists and observers present agreed. "Environmentally it is a sound idea," said Mr Richard Smith of Oxfam America. "Instead of having 15 park rangers controlling a huge area, you'd have thousands of tribal people patrolling it."

## Chicago seeks the line between a deal and a crime

Futures traders tread with special care these days as a fraud trial gathers pace, writes Barbara Durr

AFTER a hard day in the pits, Chicago's futures traders say goodbye to each other in an unusual way these days. Friendly pats down the back and along the sides are common. Traders are checking for wires and microphones. They remain traumatised by the Federal Bureau of Investigation undercover probe into fraud allegations at Chicago's two main exchanges. The probe came to light early last year and led to indictments of 47 traders and one floor clerk. The prosecution says its investigation continues, and some in the pits fear that colleagues may be wired, as FBI agents were for nearly two years.

Worries at the Chicago Mercantile Exchange (CME) and the Chicago Board of Trade (CBOT) have been refreshed by the start last week of the first trial resulting from the investigation. Three Swiss franc traders from the CME are facing multiple counts of mail and wire fraud, and one of the three is on racketeering charges.

In essence, they are charged with having cheated customers and pocketed the profits. They could face stiff fines and prison sentences.

The feeling on the CME floor is that the entire affair has been "overblown". Yes, traders admit, they have been bent on cheating but, in general, despite the fast and often chaotic scum in the pits, there is great care taken to comply with exchange rules and those of the Commodities Futures Trading Commission, the industry's regulator. If traders do not, fines, suspensions and even expulsions are imposed.

Even so, the investigation exposed some regulatory looseness and tarnished the futures industry's reputation. Since last year, both exchanges have considerably strengthened their trading surveillance and audit trail procedures. Among other measures, trading cards are picked up more frequently, fines have been increased for violations, and both exchanges have brought more outside directors onto their boards.

They are also investing \$5m in developing an electronic trading card, which aims to improve further the audit trail. The CME has even instituted an obligatory ethics class.

The fall-out from the investigation has made traders more cautious. In the past, for example, they might have evened up on trades immediately after the bell — a violation of the rules known as "herb trading". But now trading promptly stops, even though it may mean some traders go home with an unwanted position in the market.

"Everybody is pretty paranoid about doing little things that were accepted before," said one trader. The line between what was once accepted trading practice, though with a little alleged bending of the rules, and what was criminal is a key issue at the trials. The prosecution aims to show that the free-wheeling traders intentionally

changed prices, cancelled unfavourable trades and matched orders without going through the pit's open outcry system. Under all these schemes was the effort to conceal trading errors so as to avoid having to assume responsibility for losing trades.

A trader on trial, Mr Robert Mosky, is alleged to have fobbed off his losing trades on his two co-defendants, Mr Danny Scheck and Mr David Zatz, who are "local" traders. The accommodating local traders, who trade only for their own accounts, were then rewarded with winning trades to make up the losses, all at customers' expense, the prosecution alleges.

The case against the traders rests in part on the testimony and secret tape-recordings of the FBI agent who posed as a trader in the Swiss franc pit for 11 months during 1988. Another Swiss franc trader who pleaded guilty will also testify.

Defence lawyers are arguing that what their clients did was accepted practice, and that the FBI agent did not understand the hectic and complex trading of futures. They repeatedly emphasised the "chaos", "bedlam" and "pandemonium" of the pits, where prices change in the blink of an eye and, if you touch your face inadvertently, you've bought a hun-



Enough to worry about in the trading pit

that were accepted before," said one trader. The line between what was once accepted trading practice, though with a little alleged bending of the rules, and what was criminal is a key issue at the trials. The prosecution aims to show that the free-wheeling traders intentionally

violated rules to win profit for themselves instead of their customers, and covered their wrongdoing by changing their trading cards — the only records of their transactions. According to Mr Mark Pollock, Assistant District Attorney, the traders are alleged to have pre-arranged trades,

changed prices, cancelled unfavourable trades and matched orders without going through the pit's open outcry system. Under all these schemes was the effort to conceal trading errors so as to avoid having to assume responsibility for losing trades.

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dred contracts.

They argue that FBI agent Mr Randall Jannett, given his inexperience, could not understand what he thought he saw.

A number of the 48 indicted persons have already pleaded guilty and is understood to have co-operated with the prosecution. Two other trials, of 16 yen and 13 soyabean traders, are to start in September. But it is thought that the current trial will set the precedent.

A difficulty in the case is explaining the arcane nature of the futures business to a jury of lay citizens. Both the prosecution and the defence have a stake in the jury understanding. If not the details of futures trading, at least the general procedures. The jury is being given a short course in futures trading by both sets of lawyers, using expert witnesses. The trial is due to run at least six weeks.

At issue will be whether the alleged actions by the traders are rules violations (to be punished by the exchanges), civil wrongdoing without intent to defraud (punishable through the courts) or criminal, with the aim to defraud.

Mr Nicholas Weir, a Coopers & Lybrand commodities litigation specialist, summed up: "It's like a chess game where there are as many ways to describe the game as there are spots on the board to move."

## US asbestos costs suit rejected

By Martin Dickson in New York

THE US Supreme Court has refused to let 30 US states bring before it a suit aimed at forcing manufacturers of asbestos products to pay for the removal of the material from public buildings — which the states estimated could cost \$100m (\$3.5bn).

The various states will now have to decide whether to pursue suits independently against the companies in state courts. This would be very costly, in that proof of liability would have to be established 30 times.

The suit to the Supreme Court was filed against 26 companies which made products that contained asbestos until the 1970s, when it was identified as a carcinogenic material. The suit alleged that the companies failed to warn state governments of the dangers of the material and failed to pay for its removal from public buildings.

It is rare for the Supreme Court to exercise direct jurisdiction on lawsuits: it usually confines itself to disputes between states, or between states and the US Government.

## The general's pocket money goes to trial

By Henry Hamman in Miami

United States v. Manuel Antonio Noriega has never been an average criminal case. American grand juries do not normally indict military chiefs on narcotics trafficking charges.

The invasion of Panama to bring General Noriega to trial was an unusual sort of drug bust, and his rejected claim that, as a prisoner of war, he was not subject to trial differed from everyday defence tactics.

Now, the pre-trial manoeuvres have become even more amazing, with Gen Noriega's lawyers proposing to use President Fidel Castro of Cuba as a defence witness and Judge William Hoeverler asking the US Government to justify giving away (to the new Panamanian Government which the invaders installed) \$5.8m of the general's pocket money that US soldiers found in his bedroom when they seized his house in Panama City.

Meanwhile, Gen Noriega's lawyers have asked the court either to release them from the case or to force the Government to release some of the millions of dollars the general kept in bank accounts across the world, so that he can pay them. The defence also wants the Government to identify all the accounts it has frozen — a demand the Government is resisting.

The basic case against Gen Noriega is that he used his position as Panama's strongman to aid Colombian narcotics traffickers, for which he was paid millions of dollars, the prosecution claims.

But Gen Noriega's lawyers say he earned his millions legitimately by performing services for US and other intelligence agencies.

This is not an idle argument: the general needs lots of cash to pay for the legal team he wants. But the Government wants to keep the money for under US law, earnings from narcotics trafficking are forfeit. So the defence is asking the court to make the Government

prove that the assets it has frozen came from drug dealing. Judge Hoeverler appears to be inclined to concur with this demand.

Last week, he asked prosecutors three questions:

● How much of Gen Noriega's seized assets came from illegal activity?

● What part of the money came from the US or other governments?

● What right had the US Government to dispose of the general's personal property, seized during the invasion?

The judge said the basic question was: "What property of his can he use to pay his lawyers?"

The judge was particularly interested in the \$5.8m found in Gen Noriega's bedroom. "I recognise that it's not common to have \$5.8m in your bedroom," the judge said. "Still, it was apparently his money." It was an interesting question as to whether the Government had a right to give it away.

The prosecution has filed an initial response to the judge's questions, but asked that it be sealed. Prosecutors argue that to give the general the information might allow him to tap illicit accounts as yet undiscovered. Defence lawyers say they know of no such accounts.

The frozen assets are held in 27 accounts, including seven at the London branch of the Union Bank of Switzerland, only one of which is in Gen Noriega's own name.

The secrecy which envelops the money issue also shrouds another development — the disclosure to Brazilian journalists by Mr Castro that defence lawyers had visited Cuba and interviewed him as a possible defence witness. Gen Noriega's lawyers will not say what they learned, citing court-ordered restrictions on the disclosure of classified information.

Judge Hoeverler has set next Monday for answers to his questions about the general's money. The trial may not start for another year.

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## Lockerbie commission examines security

A PRESIDENTIAL commission investigating the Lockerbie bombing is expected to be highly critical of Federal Aviation Administration (FAA) security procedures according to aviation sources, Reuters reports.

The commission, which will issue a report on the disaster today, has made it clear in public hearings that it has profound doubts about the procedures that made it possible for a bomb to be smuggled aboard Pan Am flight 103. The bomb blew the aircraft out of the skies over the Scottish village of Lockerbie on December 21, 1988, killing 270 people.

It is not certain what specific recommendations the commission will make but the sources said that at the very least, it will seek modification of the security procedures.

The commission was created by President George Bush after families of the victims charged that there were serious weaknesses in the procedures employed by the FAA, which regulates US aviation.

At a hearing last month, officials from the FAA and Pan Am said the airline had not been hand-searching unaccompanied baggage put aboard the aircraft in Frankfurt.

## AMERICAN NEWS

## Menem hopes to curb unions

Gary Mead on authoritarian measures to curtail Argentina's strikes

President Carlos Menem, Argentina's quixotic Peronist leader, has produced many surprises since taking office last July. But none of them have been quite as paradoxical as his current attack against Peronist holy writ, the unrestricted freedom of trades unions. Mr Menem is preparing to hamstring the unions by curtailing their right to strike.

While most Argentines are fed up with socially disruptive wildcat strikes, some of them are alarmed at Mr Menem's promise to push through trades union restrictions "with or without consensus". That threat has a whiff of familiar authoritarianism. Argentines are highly conscious of the fact that their civilian democracy is still less than seven years old. Under President Menem, government has become a matter of rule by decree, with retroactive Congressional sanction of the decrees, often much later.

The Government's decision to legally bind trades unions to secret ballots, advanced warnings and other pre-strike measures is a response to a wave of strikes which have plagued communications, banking, education, health and transport sectors. In January there were 75 different strikes, more than double the amount for the same month throughout the previous decade.



Bankworkers were among the 75 groups who went on strike in Argentina in January

January's strike record is doubly alarming for Mr Menem, given that it is the month when the vast majority of Argentines take annual holidays and are thus in no position nor mood for industrial action. Among public sector trades unions, matters have not smoothed over since January.

But having announced his intent of rapidly forcing through a decree restricting strikes, President Menem has now opted to present a Bill to

Congress on the issue. Its 18 articles propose that strikes be curtailed to the point of impossibility in any "essential services" whose partial or total interruption could endanger health, life, freedom or security of any individual or community. Services deemed essential include transport, water, electricity, communications, medical and education.

Strikes infringing the new legislation (if passed by Congress) will be declared illegal. That in turn would mean removing the legal status of those trades unions which defied the new legislation. Argentina has more than 4m workers affiliated to trades unions. Trades union income is big business, in the region of \$8m annually. Threats to delegalise law-breaking unions alarm trades union leaders because, under current Argentine law, unions require state recognition before they can exist and operate as legal entities.

Former president Raul Alfonsín. How regularly declared strikes illegal during his 1983-1989 government, and in one case removed a union's legal status.

The shock for Argentine trades union leaders is that when they brought Carlos Menem to power in May 1989's presidential contest, they expected him to reinforce, not reduce, trades union power. Their response so far has been to push the idea of "self-regulation", the hint of a willingness to trade with the government.

They are also banking on the notion — as indeed President Menem himself may be — that Congressional members of the Peronist party, many of them owing their position to union support, will considerably

water down the Bill before it becomes law.

Congress has the ability, when it likes, of sitting on legislation for months or years at a time. The new trades union Bill has been sent to the Senate (the upper house) first, itself an unusual measure; normally Bills are first presented to the lower house of Congress and then read in the Senate. But President Menem can bank on greater support in the Senate, where his brother, Mr Eduardo Menem, is head.

Understandably, some of President Menem's closest advisers are scornful of the notion that Argentina's union leadership is either willing or able to control workers facing the toughest recession of the past 50 years. If Congress decides that placing severe limits on the right to strike of the most vociferously hostile trades unions — all in the public sector — is too hot to handle, then President Menem retains the right to simply force the measure through as a presidential decree.

For the moment, he has stepped back from a further stage in what some observers describe as "the creeping authoritarianism" of the Menem administration. Much of President Menem's economic reform programme, including his wide-ranging privatisation schemes, was introduced by decree, and only after considerable haggling sanctioned by Congressional majority.

However, he has shown that he can and will dispense with Congress in order to implement his overall economic adjustment programme. But in today's Argentina no one is certain that that particular end justifies this particular method.

## Dinkins appeals for end to racial attacks

MAYOR DAVID DINKINS condemned "eye for an eye" violence after a gang of blacks attacked three Vietnamese they mistook for Koreans, fracturing one man's skull just blocks from a black boycott of two Korean stores, AP reports from Washington.

The attack in Brooklyn early on Sunday was the latest in a string of incidents that have heightened racial tensions in the city.

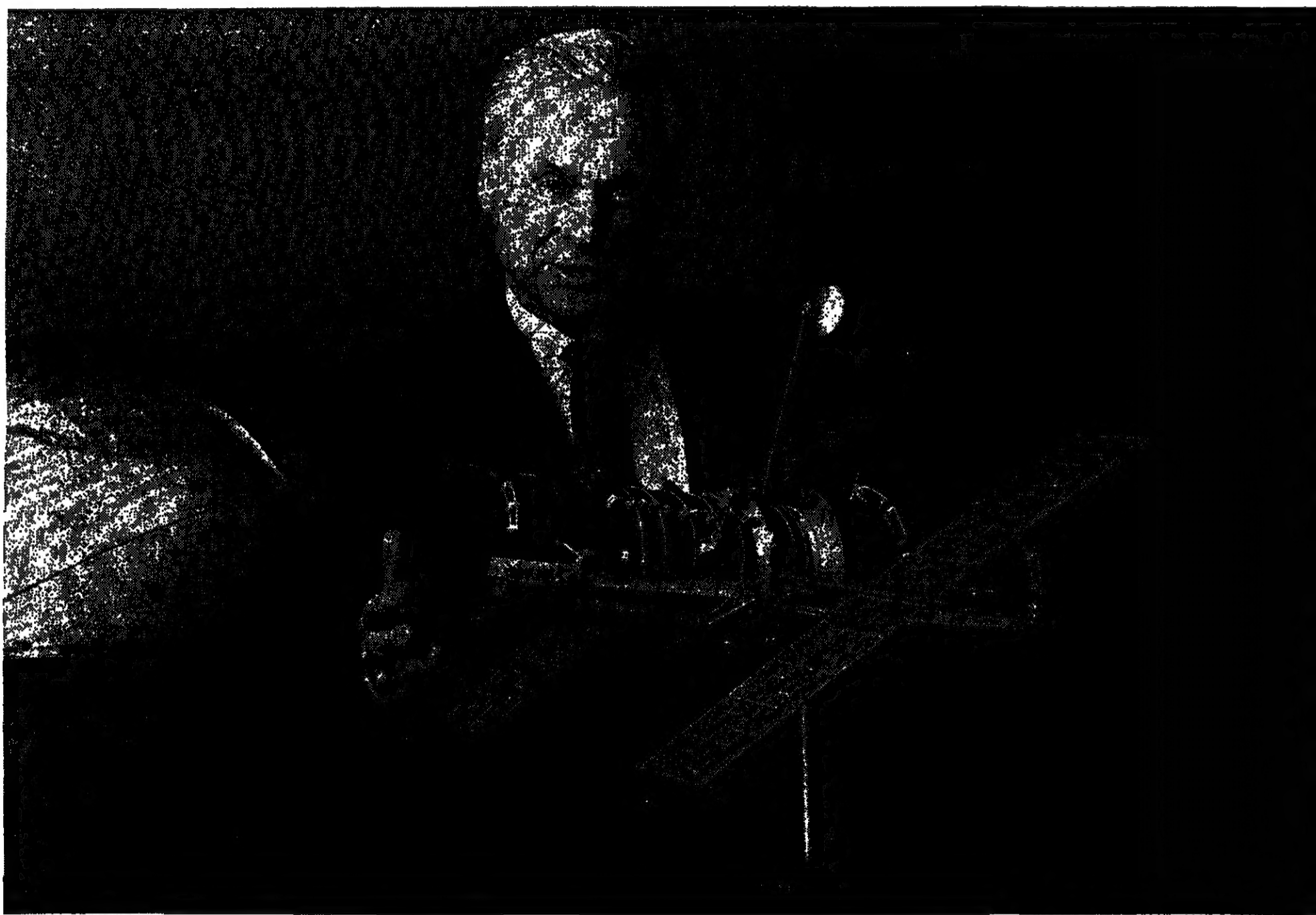
"An eye for an eye, a tooth for a tooth, will leave us all toothless and blind," the mayor said in his second appeal for racial calm since Friday.

The Vietnamese men were set upon by 10 to 15 blacks shouting anti-Korean slurs, authorities said. Tuan Ana

Cao, 36, was hit with a baseball bat and was hospitalised under guard yesterday with a skull fracture.

A few blocks away, two Korean-American grocery stores have been boycotted by blacks since Jan 18, when a black woman allegedly was roughed up by Korean workers in one of the stores after she refused to let them look in her purse. She had claimed she did not have enough money to pay for all her purchases.

As the mayor spoke on Sunday, two juries in Brooklyn were deliberating charges against two young white men accused of murdering a black 16-year-old who had entered the mostly white Bensonhurst section to look at a used car on August 23.



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Hughes' Currie with model of Hubble Space Telescope.

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the world. And now  
we're setting our  
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Not since Columbus sailed to the edge of the world has discovery loomed so close on the horizon. But now, Hughes Aircraft Company has a telescope that's so far-reaching, it could help NASA change the course of history.

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First up is the Hubble Space Telescope, the world's first complete space observatory. It is the greatest leap in astronomy since Galileo first gazed into a telescope in 1609.

No telescope has ever been this precise. Its eight-foot primary mirror is smooth to within a half-a-millionth of an inch. And its fine guidance system can lock onto a hummingbird 1500 miles away.

Both are part of Hubble's Optical Telescope Assembly, designed and developed by Hughes Danbury Optical Systems, formerly part of Perkin-Elmer and now a subsidiary of Hughes Aircraft Company.

Orbiting high above the earth's atmosphere, the Hubble Space Telescope will have a clear view of the universe. Seven times as far as the world's largest telescopes. 50 times as sensitive.

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It could confirm the existence of planets in other solar systems. And it will hone in on stars so far away, we'll be looking 14 billion years into the past.

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### FUTURE MISSIONS

The Hubble Space Telescope, which will open the window to the universe, is the first of NASA's Great Observatory programs.

Soon NASA will also launch the Advanced X-ray Astrophysical Facility (AXAF). At the heart of this mission is an x-ray telescope system now being developed by Hughes Danbury Optical Systems. It will reveal light patterns in outer space that optical telescopes can't see. And it could help us uncover the secrets of "black holes," perhaps the key to understanding how the universe was formed.

We have also set our sights on something much closer to home. Our own planet.

In NASA's "Mission to Planet Earth," our technology will help scientists study the earth's environment from distant observation points, to find ways of making our precious planet a safer, healthier place. It is an extension of the LANDSAT program, in

which we've been helping NASA map the earth's resources from satellites since 1972.

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## BRITISH VIRGIN ISLANDS

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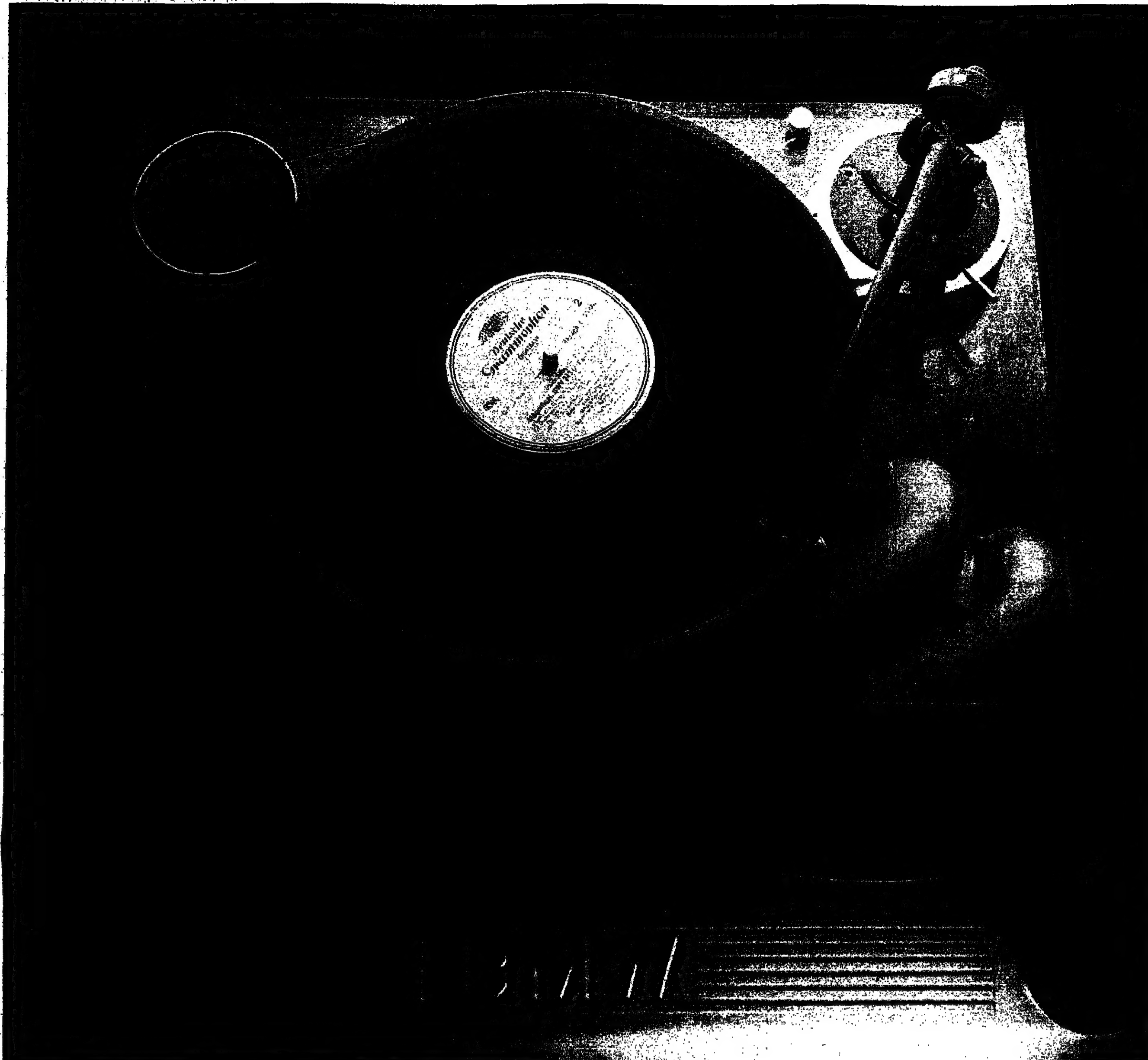
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Recently in the BMW workshops a rather unusual experiment took place.

Its aim was to prove a simple law of physics: that a 6 cylinder engine is in perfect balance, and therefore always runs more smoothly than a conventional 4 cylinder.

The method of the experiment was simple, even if a little out of the ordinary.

Under the critical eye of an RAC observer, a record deck was placed on a four cylinder, 2 litre engine, which was run at 2000 rpm.

The 'Magnificat BWV 243' was jumping so much, Johann Sebastian Bach himself would barely have recognised it.

The same record deck was placed on a 2 litre, 6 cylinder engine.

It had to be a BMW, as no other manufacturer currently offers one in the UK.

At 2000 and 33 $\frac{1}{3}$  rpm respectively, both the engine and the record revolved without the slightest hint of a jump.

Not content, the engineers tested the engine at

3000, then 4000 rpm with exactly the same result. (For the record, 4000 rpm is the equivalent of 83 mph on the Autobahn.)

You'd be forgiven for thinking BMW have made the choice of which 2 litre engine a foregone conclusion.

There is still the matter of choosing the body style.

Firstly, there's the 520i, a car that 'Motor' magazine described as "a superb executive saloon" with "superlative mechanical smoothness."

Then there's the equally impressive 320i. Which comes with 2 or 4 doors, both of which are available in Special Equipment form.

After last summer, the benefits of the Convertible model hardly need mentioning.

And with 5 doors, in its Touring guise for those whose needs run to 39.7 cubic feet of luggage space.

But which ever 6 cylinder BMW you finally choose, you'll discover something about everyone else's 4 cylinders.

They're just not up to scratch.

**THE ULTIMATE DRIVING MACHINE**





## UK NEWS

# Buoyant demand adds to fears of British inflation

By John Authers

CONSUMER demand remains obstinately buoyant in the UK, according to figures released yesterday.

The news that retail sales are still rising, coupled with a higher than expected rise in output prices, did nothing to ease worries about inflationary pressure.

Provisional figures released by the Central Statistical Office showed a 1.0 per cent rise in retail sales for April, compared with a consensus market expectation, according to research by MMS International, of 0.4 per cent.

Sales volume over the last three months, which is less subject to seasonal variations, rose by 1.0 per cent compared with the previous three-month period, and by 1.6 per cent since the equivalent period in 1989.

Year-on-year sales growth is picking up. At 2.14 per cent it is significantly higher than last year, when it hit 0.17 per cent

in July, but well below the levels of January 1989, when volume growth stood at 3.64 per cent.

Mr Roger Bootle, of Midland Montagu, said that these figures told a "slightly disturbing story: it is clearly not surging away but at this stage the figures should be more depressed than this, regardless of seasonal factors."

Analysts were less negative than they might otherwise have been because the figures were seen as seasonal. Mr Neil McKinnon, the chief economist at Yameichi, said: "It's perhaps a rather misleading number in that it's affected by the time of Easter. I don't regard this as any indication that the consumer in the High Street is now overspending again."

Unit labour costs are now seen as vital in the fight against inflation, and Thursday's figures on unemployment and average earnings will be awaited anxiously.

# Government seeks to calm fear of spread in 'mad cow disease'

By Bridget Bloom and Clay Harris

MINISTERS continued to insist yesterday that the UK Government had done everything necessary to protect the human food chain and to control the spread of "mad cow disease."

It faces mounting criticism from opposition parties as well as some local authority officers who have to enforce the regulations on the slaughter and disposal of cows affected by the disease, bovine spongiform encephalopathy (BSE).

Despite the row over BSE gaining new life after last week's post-mortem discovery of a similar disorder in a pet cat, leading supermarket chains said they had seen no evidence of reduced purchases of beef because of the scare.

The meat industry also went

on the offensive. Mr Colin Maclean, technical director of the Meat and Livestock Commission, which is funded by a levy on producers, said consumers were in danger of being unnecessarily alarmed.

Mr David Maclean, the Food Minister, said the measures had been based on the scientific advice from two independent committees, one of which had recommended a wide ranging research programme also now being implemented.

The Government, which believes that the most likely cause of BSE is from cattle feed which includes the remains of scrapie-infected sheep, last year banned the use of such feed for cattle, though not for pigs, poultry and other animals.

# IRA bombing attack on 'soft' target may herald campaign

By Jimmy Burns and Emma Tucker

YESTERDAY'S bomb attack on a Ministry of Defence establishment in London may mark the start of an intensified bombing campaign against "soft" military targets, police warned last night.

Seven people were injured when a bomb exploded outside the Directorate of Army Education in Epsom, south east London, an office complex staffed partly by civilians. The Irish Republican Army claimed responsibility.

Mr Archie Hamilton, the Armed Forces Minister, described the attack as "absolutely despicable" and said security would be reviewed again.

Commander George Churchill-Coleman, head of Scotland Yard's anti-terrorist squad, warned: "This may

only be the start of several further devices going off in different parts of the country." He warned military personnel and those involved in Irish affairs to be on the alert.

The device contained 10lbs of plastic explosive, possibly Semtex and was buried in a flowerbed next to the front entrance of the building. The bomb's timer could have been set hours or days before the explosion.

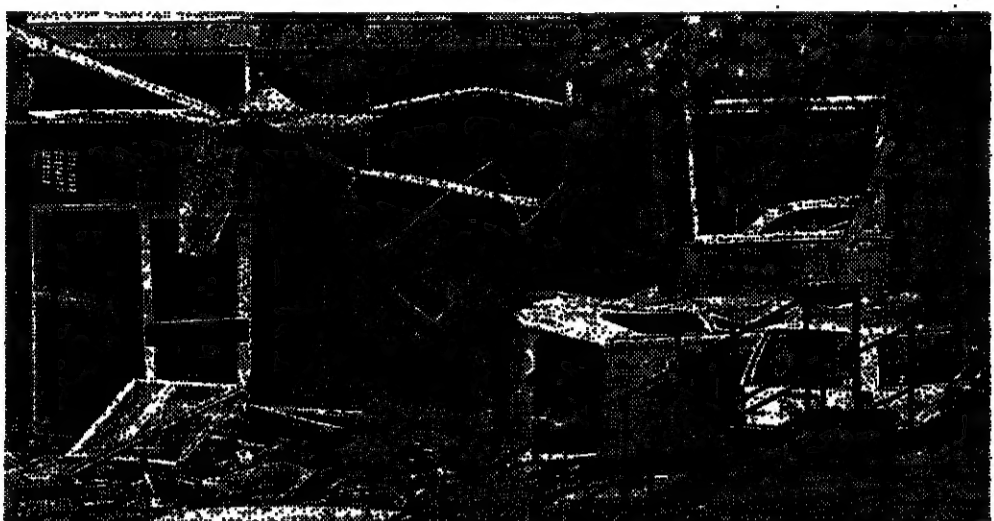
The Ministry of Defence said security had been recently enhanced at the establishment - an office complex which employs more than 100 staff, two-thirds of them civilians, who administer the army's education services.

The premises were guarded by MoD security staff, but not

soldiers. The MoD said it was spending £128m to improve security at military establishments in Britain.

Security at military establishments throughout Britain has been stepped up in reaction to the IRA campaign, the worst example of which was last September's bombing of the Royal Marines' School of Music in Deal.

In the past four years, improved intelligence has led to many of those responsible for the IRA's operations being arrested or killed. But material used in yesterday's bombing, and the surprise nature of the attack, shows the IRA again capable of eluding the security forces, and inflicting damage on life and property.



The scene at the Directorate of Army Education after the bomb attack.

# EC warned of nationalist threat

By Alison Smith

MOVING towards European union was like taking a "train to disaster", which could lead to "the destructive power of nationalism" destroying what the European Community had achieved, Mr Norman Tebbit, the former Tory cabinet minister and influential backbencher, warned yesterday.

"The greatest danger facing Europe is not that Britain would drag its feet and ruin a

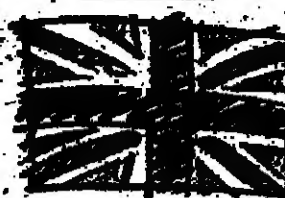
great European dream but that the Euro-enthusiasts will foolishly unleash the destructive power of nationalism and destroy all that has so far been created," he said.

He told the American Chamber of Commerce that the more power was ceded by the nation states to the European Commission, the more success in the increasingly important European elections would

depend on securing "Euro-goodies" such as regional aid - on "success in raising the European pork barrel".

This would lead to coalitions of EC member states joining together to re-distribute German wealth, with the result that "German nationalism and a sense of grievance that would explode and tear apart that European Community we have worked so hard to build up".

# BRITAIN IN BRIEF



# Marks and Spencer profits up

Marks and Spencer backed the domestic retailing downturn by announcing a 14 per cent increase in pre-tax profits during 1989-90 - from £229m to £264m.

Turnover rose 9.5 per cent to £5.61bn in the year to March 31 and earnings per share from 12.9p to 14.5p. A final dividend of 4.55p was recommended, making 6.4p for the year.

Lord Rayner, the group's chairman, said the quality and value of M and S products, as well as the cash generative strengths of the business, had helped protect it against the retailing slump. He pointed out that the company had managed to reduce its net debt from 27 per cent of shareholders' funds to 17 per cent, despite capital expenditure of £380m funded from the retailer's own resources.

Lord Rayner said M and S would continue to add retail space. Last year, the group increased sales floor space in the UK and Ireland to 9.2m sq ft.

M and S is also expanding its European activities, adding new stores in France, where the group recovered from last year's transport strike, and moving into the Netherlands for the first time. *See Page 24*

# Pub prices survey

The Office of Fair Trading is to survey 2,500 pubs throughout the country to monitor the effects of Government orders aimed at increasing competition in the supply of beer, wines, spirits and soft drinks.

The report on purchasing patterns will provide base-line

information for a later review by Sir Gordon Borrie, Director General of Fair Trading, of progress towards more competition, wider consumer choice and lower prices.

# Strangeways enquiry opens

Lord Justice Woolf, opening the inquiry into last month's prison disturbances in London, said he hoped it would lead to "sensible, reasonable and practical recommendations" to improve the prison system.

The first stage of the investigation, beginning next month, will look at the particular troubles at



Lord Justice Woolf, opening the inquiry into last month's prison disturbances in London, said he hoped it would lead to "sensible, reasonable and practical recommendations" to improve the prison system.

# Ban call on low flying jets

Very low flying by military jets should be phased out in the UK within two years and the need for more routine low-level training may be reduced in the longer term.

These are among the main conclusions in a report published by the Commons Defence Committee after an extensive enquiry into the controversy over low-flying and the nuisance it causes.

The report adopted the Royal Air Force's argument that aircraft needed to practise at low level to be able to evade enemy air defences, and said it would be "the height of folly" to cut training regardless of the military situation.

Low-flying movements doubled to more than 247,000 a year between 1978 and 1988. Fast jets accounted for more than 80 per cent of the total.

# Insurance still going strong

New business transacted by life companies operating in the UK continued to remain strong, with no sign yet of the predicted new business downturn.

Figures issued by the Association of British Insurers, at the start of its Insurance Week, showed that in the first quarter, new annual premium business increased by 15 per cent on the corresponding quarter last year from £652m to £749m, while single premium business rose nearly 60 per cent from £1.21bn to £1.89bn.

Pensions business remains particularly buoyant, despite an apparent drop in sales of personal pension policies used to contract-out of the State Earnings-Related Pensions Scheme.

# Builders call in receivers

The fragile state of the housing market was underlined when two builders - one in the south-east of England and the other on Tyneside - called in receivers.

Federated Housing, a Surrey-based builder specialising in first-time homes, said it was expecting a significant loss in 1989 after making provisions against its land bank of some £7m.

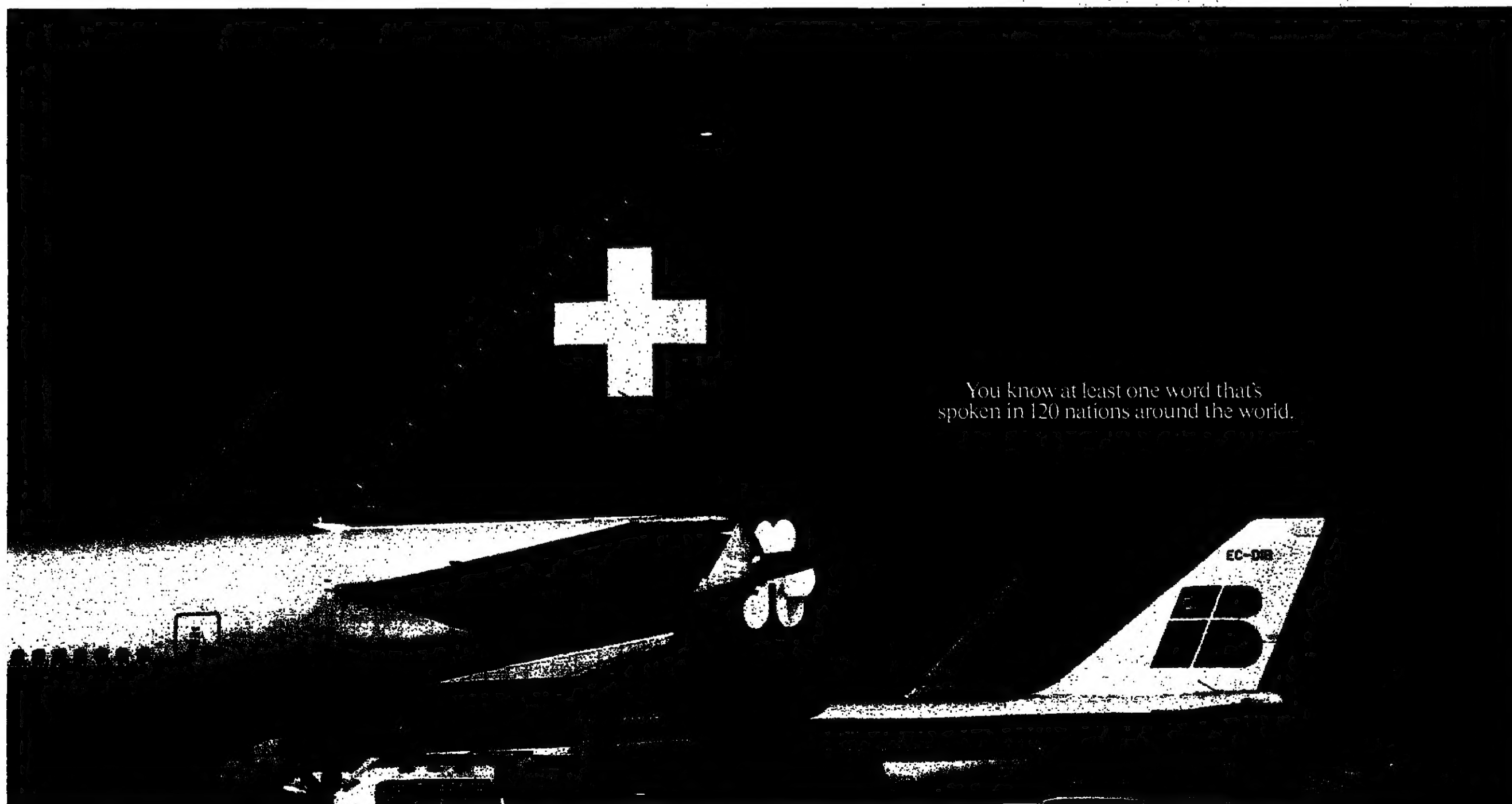
Stanley Miller Holdings of Newcastle said Ernst and Young had been appointed as receivers by its bankers, National Westminster, after talks with prospective buyers broke down.

Several property developers and contractors have failed so far this year, including Rush & Tompkins, Declan Kelly, Brims Holdings and J M Jones.

# Murdoch chair at Oxford

Mr Rupert Murdoch, media tycoon and politician, philosophy and economics graduates of Oxford University has endowed the Rupert Murdoch Chair in Language and Communications at his alma mater.

The more than £2m deal includes no less than three Times lectureships and a £500,000 News International Research Fund.



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**CHASE**



## UK NEWS

## Ford UK profits slip 28% in spite of record sales

By Kevin Done, Motor Industry Correspondent

THE UK operations of Ford of the US, the world's second-largest car maker, suffered a 28 per cent fall in pre-tax profits last year to £483m from a record £673m a year earlier.

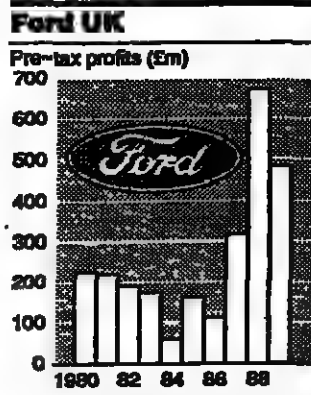
The drop in Ford UK profits occurred in spite of record sales of cars and commercial vehicles. Last year was still Ford's second most profitable year of the decade.

It reflected in part the cost of Ford's leading role in the increasingly fierce battle in the new car market, as makers battle to maintain their market share in the face of falling sales.

The weakness of sterling also increased the cost of imported vehicles and components imported by Ford. Some 39 per cent of Ford's UK new car sales were imported last year.

Part of the fall in pre-tax profits came from the financial effect of the Jaguar acquisition in the final months of last year, as net interest income of \$65m in 1988 declined to \$16m last year.

Ford remains a big factor behind the UK motor industry's £6.5bn trade deficit, in spite of a 14 per cent rise in the value of its exports to £1.67bn last year. Ford refuses to disclose the value of its imports.



Ford UK was also affected by a \$29.7m pre-tax loss incurred at Ford New Holland, its tractor-making subsidiary, which suffered substantial losses in Venezuela. Sales collapsed after the devaluation of the Venezuelan bolivar and it was forced to ship more than 800 tractors back to its UK plant in Basildon.

The fall in Ford's UK profits stands in stark contrast with the good financial performance last year of Vauxhall, the UK subsidiary of General Motors of the US, and Peugeot Talbot, the UK subsidiary of Peugeot of France.

Demand for new cars began

to weaken in the final quarter last year in the face of high interest rates and the economic slowdown. Ford, like its rivals, has responded with costly marketing campaigns, increased advertising, inexpensive financing and higher-specification cars at unchanged prices.

Mr Derek Barron, chairman of Ford Motor, the UK subsidiary, said Ford's reduced profits were "convincing proof of the increasing levels of competition we face".

Ford's performance last year was "inadequate to meet the challenges of intensifying competition, rising costs and the slowing down of consumer spending generated by high interest rates," he warned.

Britain is the company's highest single market in Europe. Ford held its share of the car market virtually unchanged at 26.5 per cent in 1989, while sales rose by 4.3 per cent to 608,717. Ford also dominates UK light commercial vehicle sales, with 47.5 per cent of all 1989 medium van sales.

UK car production rose 1.9 per cent last year to 383,581, while commercial vehicle output rose by 8.4 per cent to 143,971. Ford said that it lost production of 5,389 vehicles in industrial disputes in the final months of 1989.

## Commercial vehicle sales declining

by John Gifford

THE UK commercial vehicle market deteriorated further last month, with the worst monthly fall since sales began slipping away from the record levels of last autumn.

Some heavy truck makers are recording only about half the sales made in April last year.

The downturn, which is causing short-time working throughout the truck industry, is affecting in varying degrees all types of commercial vehicle except light four-wheel-drive machines.

Statistics from the Society of Motor Manufacturers and Traders show total commercial vehicle sales last month were 20.2 per cent down on the 33,551 sold in April 1989.

Warnings by Mr John Major, the Chancellor, that interest rates are likely to remain high for some time, combined with the slowing economy, have led to many prospective buyers postponing purchases.

Scania's sales for the month were down by 22.35 per cent and those of Volvo fell just under 40 per cent. Iveco Ford and Leyland DAF, the two market leaders in the over 3.5 tonnes sector, fared relatively well last month, each experiencing a sales fall of only about 16 per cent.

## Ford and Rover initiatives in skills training in the UK motor industry

### Car maker imports US university staff

By John Gapper

FORD of Europe has reached an unusual solution to the problem of training some of its top engineers in advanced electronics skills.

It has moved an entire American university degree course to England, complete with resident professors.

The company has imported the course from Wayne State University, Michigan to its research and development centre in Duxton, Essex. With it comes a professor from Wayne State who stays for a semester before returning to the US.

The graduate engineers, who

will study two mornings a week for two years, will receive a Wayne State Master's degree in electronics and computer control systems.

They will go on to work on developing power train units for Ford cars.

The company has imported the degree because it wanted British engineers to receive the same training as engineers from its base in Detroit, Michigan. It also believed there equivalent course of the same quality in Britain.

A further 11 engineers from Duxton are due to start the

course this September.

The company is also planning to establish a similar course at Aachen University in West Germany for engineers at its centre at Merckelich, Cologne.

The professors from Wayne State who come to Britain to teach the course at Duxton each stay for a single semester.

The training at Duxton is part of a broader effort to recruit and train more advanced electrical engineers.

The company has just

started a recruitment drive for 200 more such graduate engineers in Britain.

The course at Aachen University is to be taught by resident tutors, although it will be the same as the Wayne State course and the German graduate engineers will also receive a degree from the American university.

Ford said yesterday that it had decided to import the course to ensure that all its advanced engineers in Europe had the same training as those in the US.

## Japanese challenge prompts skills deal

By Michael Smith, Labour Correspondent

ROVER Group, the vehicle manufacturer, yesterday launched the Rover Learning Business, a "business within a business" aimed at helping to co-ordinate the training needs of the company's 40,000 employees.

The launch coincided with the introduction of an "assisted learning" programme, through which employees will be offered up to \$100 towards the cost of learning courses, not all of which need to be directly job related.

Rover is also offering Devel-

oping Management Skills, a programme which offers a range of opportunities for all employees, including shopfloor workers, to learn management skills.

Mr Rob Meakin, group personnel director, said the initiatives had been made in the light of demographic changes, which are reducing the number of 16 to 19-year-olds, and the competitive challenge from companies such as Nissan and Toyota.

"We have to be attractive to recruit and retain the right

people," he said. "We also need more contribution from the existing workforce."

Rover Learning Business, which is backed by a group training budget of about £30m a year, will operate in partnership with academic institutions including Warwick University, City University and Leeds Polytechnic, which will help provide some of the courses.

No main product will be the design, development and production of training programmes and materials in

response to the demand of Rover employees.

The training departments of each Rover plant will act as "franchises" to RLB. Managers will also be encouraged to take a greater interest in training development.

Among the courses which are not directly related to work is one on Japanese language. Taught by employees of Honda, the Japanese vehicles group with which Rover has a joint venture, it is providing lessons for 30 Rover workers and there is a waiting list.

## UK shares turnover drops 10%

By Richard Waters

THE sluggish nature of the UK equity business and buoyant mood in the international equity market were confirmed yesterday by the latest quarterly bulletin from London's International Stock Exchange.

In UK shares, average daily turnover in the first quarter of this year was 10 per cent lower than in the previous three months. The amount of business conducted by customers (rather than between market makers) was down 8 per cent at £297m a day.

Activity in the current quarter is likely to be lower still. During April, which is not covered by the survey, daily business was a further 10 per cent down on the first quarter's average, at £1.1bn, while customer business fell another 7 per cent, to £750m.

In international equities, meanwhile, activity exceeded that in UK shares for the first time, with an average of £1.48bn in shares traded in London every day in the first quarter. Comparisons with the previous period are hampered by an extension in the reporting requirements for such trades.

The amount of money raised on the stock market also declined in the first quarter. At £5.8bn, it was considerably lower than the £7.8bn of the corresponding period last year and the £9bn of 1988 - although the 1988 figure was boosted by a 24bn worth of gilt edged stock.

*Quality of Markets Quarterly, January-March 1990, 15th, 22c.*

● South New Court, a leading market maker, narrowed the spreads between its bid and offer prices in second and third division (beta and gamma) stocks in a move which could lead to more competitive pricing throughout the market in such shares.

According to Mr Tony Abrams, head of market making, the move was prompted by spreads of 5-10 per cent in the prices of some shares, which has helped to drive business away from the stock market.

The decision to make more competitive prices does not herald a new price war between market makers, he said. Market makers are still smarting from losses incurred during a fierce price war in the largest, alpha stocks in the second half of 1989.

The trial continues.

## GUINNESS TRIAL

### Lyons told to keep Roux's 'mouth shut'

By Raymond Hughes, Law Courts Correspondent

EIGHT days after trade department inspectors began investigating Guinness Sir Jack Lyons was asked to get Mr Olivier Roux, the company's director of finance, to "keep his mouth shut". The jury at Southwark Crown Court heard yesterday.

Interviewed by the inspectors Sir Jack said that on December 8, 1986, Mr Thomas Ward, a US lawyer and Guinness director, had telephoned him from Washington.

"Mr Ward was very concerned that I should use my influence at Guinness & Company" (Guinness's management consultants, of which Mr Roux was an employee) "to curtail Mr Roux's talking too much," Sir Jack said.

Sir Jack said he had replied that he was purely an adviser to Guinness and "I do not believe that I have any influence - even if I was prepared to follow through with your request - but I will have a word with Roux so that I know what you are talking about."

Mr David Donaldson, QC, one of the inspectors, suggested that "roughly speaking" what he had been saying was "Can you please talk to Mr Roux and get him to keep his mouth shut." Sir Jack agreed that "in plain language that is probably correct."

When he had spoken to Mr Roux he had said, "I am not surprised, but am determined to, and I have in fact already done so."

Had Mr Roux expressed any view about his own conduct?

Mr Donaldson asked. Sir Jack replied: "He said, 'I have done nothing wrong. I had no benefit out of this at all other than my job... I feel that I have been... certainly guilty of being naïve, which I have no right to be, but I do not intend to be naïve any more.'"

Transcripts of Sir Jack's interviews with the inspectors were read on the fifth day of the trial in which he, Mr Saunders, former Guinness chairman and chief executive, Mr Gerald Ronson, Heron group chairman, and Mr Anthony Parnes, a City stockbroker, deny charges arising from an allegedly unlawful share support operation mounted by Guinness during its takeover battle for Distillers.

The trial continues.

## Package tour bookings overseas 'to fall by 1m'

By David Churchill, Leisure Industries Correspondent

BRITAIN'S package tour operators expect to sell almost a million fewer continental holidays in the year to next April, according to figures released yesterday by the Civil Aviation Authority.

The CAA is responsible for licensing charter airlines and applications by tour operators often under-emphasise the demand.

The planned 6.6 per cent - or 917,000 - fewer holidays on offer, therefore, suggest that the cut-backs in capacity this summer will continue into next winter.

Demand for package holidays this summer is about 20 per cent below last year's level of demand. The expectations among travel companies is that demand for winter holidays next year will be static or below this year's level.

The CAA figures show that Thomson Holidays, Britain's biggest tour company, plan to sell 5.03m holidays in the next year compared with 5.69m in the past 12 months.

International Leisure Group Travel, the second largest operator, are seeking licences for 1.78m holidays, compared with 2.43m last year.

The CAA points out that in spite of the cut-back in holidays planned, tour operators expect to increase revenue by 2.6 per cent to £26m.

The 40 largest tour operators, according to the CAA figures, account for 11m licensed holidays, just under 45 per cent of the total.

The top three companies - Thomson, ILG, and Owners Abroad - account for 61 per cent of the total.

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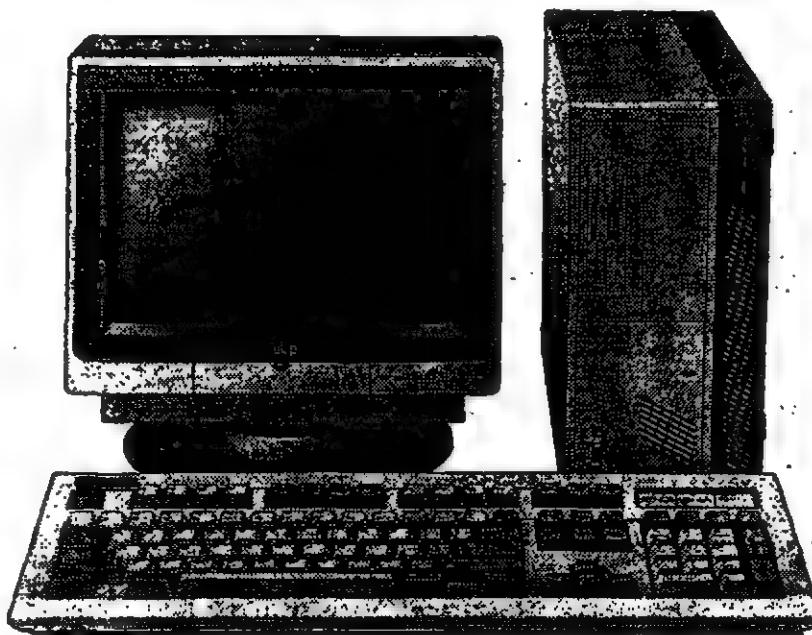
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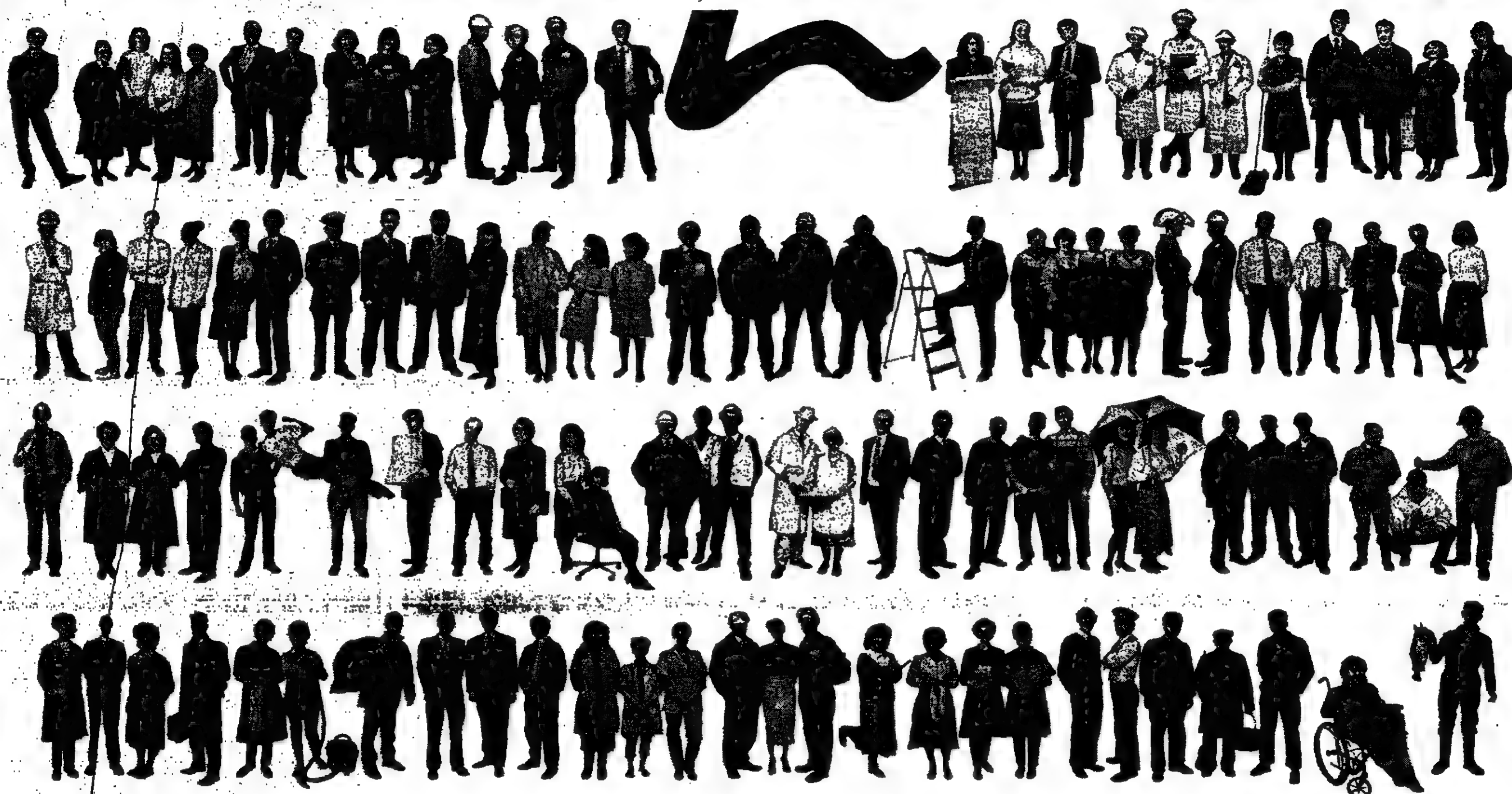
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# TEES/SIDE

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**FBME MINT GUARANTEED PLC**

NOTICE IS HEREBY GIVEN THAT the Second Annual General Meeting of the Company will be held at the offices of E D & F Man AG, 17, Wilenstrasse, Wollerau, Switzerland, at 11.00 a.m. on Friday 8 June 1990, for the following purposes:

1. To receive the Accounts of the Company for the period ended 28 February 1990 together with the Report of the Auditors and the Report of the Directors.
2. To re-elect Mr A F M Saab retiring from office.
3. To re-elect Mr C Barrow retiring from office.
4. To re-elect Mr S C L Hickey retiring from office.
5. To re-elect Mr D J Pearmond retiring from office.
6. To elect Mr H A M McGrath to replace Mr D M Anderson, who has retired.
7. To re-appoint Coopers & Lybrand as the Auditors to the Company until the conclusion of the next General Meeting of the Company at which accounts are laid before the Members and to authorise the Directors to fix the remuneration of the Auditors.

BY ORDER OF THE BOARD  
LEGIBUS SECRETARIES LIMITED  
Secretary  
Dated the 10th Day of May 1990.  
REGISTERED OFFICE  
Blackfriars House  
19 New Bridge Street  
LONDON, EC4V 6BY

**PROXIES**

A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him and such proxy need not be a Member of the Company.

**SERVICE CONTRACTS**

There are no Directors' Service Contracts.

**COMPANY NOTICES****MALAYSIA MINING CORPORATION BERHAD**  
(Incorporated in Malaysia)  
**NOTICE OF MEETING**

NOTICE IS HEREBY GIVEN that the Fourteenth Annual General Meeting of members of Malaysia Mining Corporation Berhad will be held at Parkroyal Kuala Lumpur, Room Parkroyal X, 2nd Floor, 54A, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia on Monday, 11th June, 1990 at 11.00 a.m. for the purpose of considering and, if thought fit, passing the following as ordinary resolutions:

**ORDINARY BUSINESS**

1. "THAT the respective balance sheets and profit and loss accounts together with the notes thereon of the Company and of the Group which state the affairs of the Company and of the Group at 31st January, 1990 and of the results of the Company and of the Group for the year ended on that date, together with the statement of source and application of funds of the Group for the year ended 31st January, 1990 and the reports of the Directors and Auditors be and are hereby received and adopted."
2. "THAT the final dividend of 30% per 10 sen share, less tax at 35%, be and is hereby approved and declared payable on 14th June, 1990 to the members of the Company registered at the close of business on 25th May, 1990."
3. "THAT YBhg Datuk Mohd Desa bin Pachi, who retires by rotation, be and is hereby re-elected a Director of the Company."
4. "THAT YBhg Tan Sri Dato' Theng Yaw Hong, who retires by rotation, be and is hereby re-elected a Director of the Company."
5. "THAT Messrs KPMG Peat Marwick, who are eligible and have given their consent for re-appointment, be and are hereby re-appointed the Company's Auditors for the period until the conclusion of the next Annual General Meeting and that the remuneration to be paid to them be fixed by the Board."

By way of special business to consider and, if thought fit, pass the following as an ordinary resolution:

6. "THAT pursuant to Section 132D of the Companies Act, 1965, the Directors of the Company be and they are hereby generally and unconditionally authorised, notwithstanding the provisions of Article 5 of the Articles of Association of the Company, to allot and issue all or any of the ordinary shares unissued to any person upon such terms and conditions and at such times and for such purposes as the Directors may, in their absolute discretion deem fit, whether pursuant to an offer agreement or option made or granted by them or otherwise, subject always to the approval of all relevant regulatory bodies being obtained for such allotment and issue."

Kuala Lumpur  
15th May, 1990

By Order of the Board  
ABDUL MALEK ABDUL MAJID  
WAN MOHAMED WAN YUSOFF  
Secretaries

**NOTES**

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. Copies of Directors' service contracts are available for inspection at 38th Floor, Menara PNB, 201A, Jalan Tun Razak, 50400 Kuala Lumpur on any weekdays (except Saturdays) from 15th May, to 11th June, 1990 during usual business hours and will also be available for inspection at Parkroyal Kuala Lumpur, Room Parkroyal X, 2nd Floor, 54A, Jalan Sultan Ismail, 50250 Kuala Lumpur on 11th June, 1990 for fifteen (15) minutes prior to and until the conclusion of the Annual General Meeting.
3. A form of proxy to be valid must reach the Malaysian Registrars' office at Pemas Chartered Management Securities Berhad, 32nd Floor, Menara PNB, 201A, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia or the United Kingdom Registrars' office at Barclays Registrars Limited, 6, Greencoat Place, London SW1P 1PL, England, not less than 48 hours before the meeting.

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**SWEDEN**

The Financial Times proposes to publish this survey on:  
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**FINANCIAL TIMES**  
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**FT LAW REPORTS**

# Gloucester trader loses market stall for breach of City's licence

**GLOUCESTER CITY COUNCIL v WILLIAMS AND OTHERS**  
Court of Appeal  
(Lord Justice Fox, Lord Justice Parker and Lord Justice Ralph Gibson)  
May 3 1990

**THE OWNER** of a franchise market has no obligation to provide stalls for vendors, but if he does so he is entitled to stipulate conditions of trading and to restrict the type of goods sold, in the absence of contrary custom or contrary provision in the statute or charter under which the franchise was granted.

The Court of Appeal so held when dismissing an appeal by the first defendant, Mr Gary Williams, from a decision by Judge David Smith QC ordering the plaintiff, the City of Gloucester, to take possession of a market stall held under licence by Mr Williams and his brothers, Paul and Dean.

A market building, owned by the City, was opened on a new site in Eastgate Street in 1963. The degree of control necessary to effect the City's purposes was achieved by the grant of licences to stallholders. A licence was granted for a specific trade, and regulated the class of goods which could be sold from each stall.

When the new building was opened the City agreed with former market traders that it would allocate licences to ensure that the balance of trade remained the same as previously.

In 1972 Mr Gerry Williams became the licensee of stall 38, licensed to sell general groceries.

It was a large stall quite close to stall 41 where a Mrs Trotman sold shellfish. In 1976 she nominated Mr Williams as her successor.

No trader was allowed to occupy two stalls. On June 30 1978 the City granted a licence to Mr Williams's three sons (the defendants) to occupy stall 41. They were licensed to use it

"on the terms herein".

By paragraph 3(o) of the licence the defendants agreed to use the facilities for the sale, storage and preparation of "high class salads".

In fact it was Mr Gerry Williams who ran stall 41. He ran it with stall 38 as one business. There was a clear distinction between the two stalls to begin with, but as time went on the distinction became blurred.

In 1984 Mr Williams sold the goodwill in stall 38 to a Mr Carter for £19,000. Mr Carter found that stall 41 was trading in direct competition with him in the sale of general vegetables. He complained to the City.

On February 4 1985 the City gave the defendants notice to quit. In default of agreement on items to be sold the notice to quit was to stand. A list of 18 items was agreed by Mr Gerry Williams on the defendants' behalf as an interpretation of "high class salads" in paragraph 3(o).

Mr Gerry Williams and the defendants did not abide by the agreed list and on October 2 1987 the City served further notice to quit in respect of breach of paragraph 3(o).

In the Gloucester County Court Judge David Smith QC ordered that the City take possession of stall 41. The defendants now appealed.

The question was whether as a market of the law of market franchises, the City was entitled to impose terms on a stallholder as to what goods should be sold from his stall.

The defendants contended that a franchisee had no power to limit the class of goods to be sold from a stall, unless the power was expressly conferred by the charter or statute creating the franchise.

It said that a franchise market, such as the Eastgate Market, had the following regime of rights:

- (a) the franchisee enjoyed: (i) a six and two thirds miles monopoly (see *Manchester Corporation v Walsley* (1985) 50 P & C 499); (ii) a right to tolls and, in the case of a landowner, stallage (i.e. a charge for stalls);
- (b) the public had the benefit of a market overt;
- (c) the individual had a common law right to come into the market for buying and selling.

The City as franchisee, it was said, was obliged at Common Law to provide sufficient accommodation for the public to buy and sell. If the franchisee failed in his obligations he risked repeal of the franchise.

Those propositions of law, accepted for the purposes of the argument, did not assist the defendants' case.

The land on which the Eastgate market was held was the City's property. *Prima facie* at Common Law a landowner was entitled to exact from a person who wished to have the privilege of occupying his land such consideration and such terms as he thought fit.

Thus, the landowner could fix a payment and, in the case of premises to be used for trading, could stipulate conditions as to the trade which might be conducted.

Accordingly, the landowner could restrict the type of goods to be sold by a licensee.

The question in the present case was whether there was any rule of the law of market franchise which displaced the general law.

There was not. A franchisee was entitled to charge stallage if he provided stalls, but there was no obligation on him to provide stalls at all.

In the present case there were no customary, statutory or chartered rights which would displace that law.

The result was that, at Common Law, the owner of the stall was entitled to stipulate such terms as he thought fit when granting a licence to occupy a stall. There was no rule of franchise law which prevented that.

On the judge's findings, the agreed list of 18 items was incorporated in the licence as identifying the high class salads there specified, and was binding on the defendants.

The defendants contended that even if that were correct, paragraph 3(o) was not enforceable.

First, they relied on the doctrine of restraint of trade as invalidating paragraph 3(o).

The limitations in paragraph 3(o) did not come within the doctrine, because at the date of the licence the defendants had no previous right to occupy stall 41. When they took possession subject to the restrictive provisions, they gave up no right which they previously had. (see *Esso Petroleum v Harper's Garage* [1968] AC 268).

Second, the defendants relied on section 20 of the Race Relations Act 1976 which provided that it was unlawful "for any person concerned with the provision of goods, facilities, or services to the public... to discriminate against a person... (a) by refusing... to provide him with any of them...".

There was no evidence that the City refused to provide any facilities or services. The City was not "concerned with the provision of goods...". It was simply a landowner licensing the use of its land. The point was rejected.

Third, the defendants relied on the Restrictive Trade Practices Act 1976.

When the new premises were opened the City made a non-binding "gentleman's agreement" with traders that it would not alter the existing balance of trades.

It was contended that the agreement should have been registered under section 1 of the Restrictive Trade Practices Act 1976 which provided that any agreement to which the Act applied by order made under section 11, was subject to registration.

Section 11 provided that the Secretary of State might order that the Act should apply to a class of agreements made "a) ... between two or more persons carrying on business in the supply of 'services' or 'goods' ... in the supply of services...".

The gentleman's agreement was not an agreement between "two or more persons" carrying on business in the supply of "services" or "goods" - see section 6(1). The traders were simply selling goods. The City was merely conferring a right of occupation.

The defendants did not succeed in demonstrating that the provisions of the licence were invalid. The judge came to the right conclusion. The City was entitled to possession of stall 41.

The appeal was dismissed. Their Lordships agreed.

For the defendants: Leslie Price QC and Roger Evans (Lutons, Gloucester).  
For the City: Nicholas Patten QC and Tonia Clark (City Solicitor).

**Rachel Davies**  
Barrister



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In short, both smokers and non-smokers should try to see things from one another's point of view.

Smoking doesn't have to be a burning

issue in the workplace. Consideration on one side, and a little tolerance on the other, may be all that's needed to take the heat out of the argument.

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## TECHNOLOGY

Louise Kehoe talks to the people who want to place more sophisticated computer systems in hospitals

The pros and cons of publicly-funded versus private health care have been the subject of many lively debates, particularly when the focus of discussion is a comparison between the British and US national health systems. Increasingly, the concerns of administrators, doctors and other health-care professionals on both sides of the Atlantic appear to be converging.

British doctors talk about the looming shortage of nurses. "It is a potentially huge problem," says Dr Nigel Offen, consultant surgeon at Whipps Cross Hospital in east London. "By 1995, we will need to recruit 50 per cent of the 18-year-old females with five O levels in the UK into nursing."

In the US, there is already a shortfall of about 200,000 nurses, and by the year 2000 there will be 600,000 fewer nurses than are needed, according to a report by the US Commission on Nursing.

Rising costs are another common problem. In America, hospital

expenses have risen by an estimated 33 per cent over the past three years. More than 80 US hospitals closed their doors in 1988 and the trend is continuing. Experts predict that 40 per cent of US hospitals will have closed by 2000.

Hospital closures and cutbacks are nothing new in the UK, in an era of government pressure to stem rising health care costs.

Another surprising similarity

between hospitals in both countries is the low priority that many have so far placed on the use of information technology. Although the vast majority of US hospitals use computers to manage billing and related financial applications, only 40 per cent have information systems that address patient care needs.

Even among those hospitals that have automated patient record keeping, for example, few have fully-integrated systems.

"The average hospital information systems environment today has more 'sneakernet' than true integration," says Susan Campbell, a partner in the Healthcare Group of Andersen Consulting, a major systems integrator. Sneakernet is a popular term used to describe computer systems that are not electronically linked. Users print out training sheets to read data from one computer to the next.

"Different departments typically use different systems from different vendors to suit their individual needs. Data entry work is often redundant between departments. Timely communication of information is constrained," says Ms Campbell.

## A case for screening doctors and nurses

Compared to other service industries, health care is way behind in its use of information technology. Banks, for example, typically spend about 8 to 10 per cent of annual revenues on information technology. The information systems budget for hospitals is typically closer to 2 or 3 per cent.

Economic pressures as well as the growing recognition that information technology can contribute to advancing the quality of health care are now, however, beginning to accelerate the use of IT in hospitals.

An important goal is to improve the productivity of doctors and nurses by reducing the amount of time that they must spend on routine clerical tasks such as filling out forms and transcribing records.

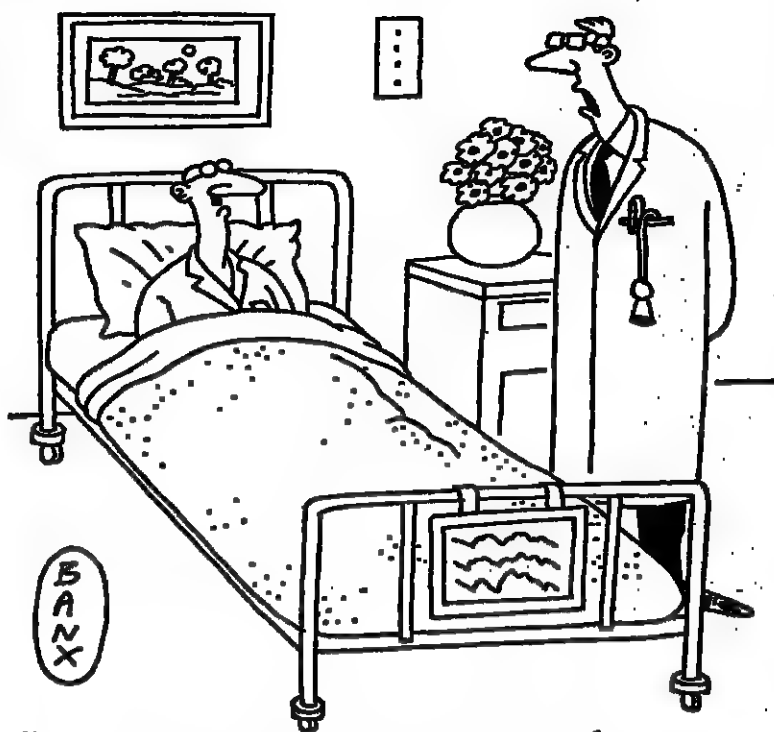
"Forty per cent of a nurse's time is spent doing administrative and clerical chores," according to Jay Toole, Andersen's partner in charge of health care applications. "We found that you could save an hour a day for each nurse by introducing a computerised clinical record keeping system," says Carolyn Davis, former chairman of the National Commission on Nursing and now a consultant with Ernst and Young. Dr Davis counters the widely held concern that computers make patient care more impersonal. "Reducing the amount of time spent on paperwork allows nurses to focus more on the patients," she maintains.

To obtain the maximum benefits from a hospital information system it must be designed for use by doctors and nurses who typically have little or no computer experience and who may be highly sceptical about the benefits of information technology.

TDS Healthcare Systems, a leading US hospital computer systems company, has developed proprietary "ease-of-use" features to encourage professionals to use its computers.

TDS systems incorporate a "light pen" that allows users simply to point at an item on the computer screen to select it and to quickly scroll through screens of information to create orders for tests or medication from custom-designed menus, or to retrieve results of laboratory tests. Doctors can create displays and formats that suit their day-to-day activities such as listing commonly-used tests.

The core of the TDS system is a "permanent patient record" — a "birth-to-death" medical record which



"I'LL BE REMOVING YOUR APPENDIX DURING MY NEXT SCREEN BREAK, MR DIMPMAN"

can be immediately accessed when a person is admitted to hospital or visits a clinic as an outpatient. Rather than sifting through what may be a cumbersome — and often disorganised — file of paper, the doctor can easily call up relevant information. Using a graphics and spreadsheet application, he or she can spot abnormal trends from data in the file.

Other features of the system include appointment scheduling and resource allocation, which handle the complex task of managing hospital resources and help to balance workloads.

Saving time — and costs — is the primary task of the hospital information system. US hospitals that have installed computerised patient care systems claim to have reduced their costs per patient per day by as much as 40 per cent.

Less tangible, but perhaps more

important benefits of hospital information systems accrue from a reduction in the number of errors that all too frequently are caused by the inefficiencies of hospital record keeping.

Errors in prescription writing averaged 2 1/2 per cent at a large New York teaching hospital, and one in five of the mistakes could have caused severe medical problems or death, according to a recent study published in the Journal of the American Medical Association.

Information systems can also improve communications between different departments in a hospital.

Fighting the system — retrieving lost records, battling to schedule tests or arguing over whether orders for X-rays have been delivered — represent major sources of frustration for nurses in busy teaching hospitals, according to nursing administrators.

When disputes do arise over patient

care, whether within the confines of a hospital or in the courts, computer records provide clear evidence of exactly what was done, by whom and when. Unlike handwritten records which can be altered or removed, the computer records are automatically dated and any changes to the record are similarly noted.

"Medical auditing" of physicians and hospitals to measure cost efficiency or identify problems may also be greatly assisted by computerised records. Computerised records of a doctor or hospital can be examined far more quickly and efficiently than voluminous paper records.

Similarly, medical records held on computer disk can be quickly analysed for research purposes to find out, for example, how effective a treatment has been. This could provide an important new form of "decision support" for hospital doctors.

To demonstrate the untapped potential of information technology in hospital health care, Andersen Consulting recently created a prototype "Hospital of the Future" permanent exhibition in Dallas.

In the simulated hospital environment, computers from Hewlett-Packard, Digital Equipment, NCR, Compaq and Sun Microsystems are linked on "open systems" networks running applications software from dozens of specialist companies.

In the simulated admitting room, patients' records are opened with medical and financial information which is transmitted immediately to the hospital ward and to the hospital billing department. At the same time, that information is recorded on a "smartcard" which looks like a credit card but incorporates a semiconductor memory chip that can store up to 1,000 pages of text.

When doctors order laboratory tests or medication the patient's records are automatically updated. Nurses can make entries on a patient's record using bedside or hand-held computer terminals, or at a nurse's station.

In the emergency room, computers with handwriting and voice recognition speed entry of critical data. X-ray images are transmitted electronically to multiple sites for review by radiologists and physicians.

Other systems help keep track of operating room schedules and supplies. Physicians also can tie into computer databases, which contain the latest medical research papers.

The technology also reaches into homes through a portable computer that can remind patients what medicine to take when and can transmit that information back to a physician or home health care agency.

"We don't expect any hospital overnight to incorporate all of the technology demonstrated at Hospital of the Future," says Jay Toole, "but they should have an integration strategy which gives them the flexibility to make incremental improvements over time."



### WORTH WATCHING

by Della Bradshaw

#### One computer is better than two

WHEN one company gobble up another the compatibility of the computer systems is rarely considered. As a result the enlarged company can often end up with two computer systems needing two teams of programmers.

Andersen Consulting has developed a design tool which allows software engineers to write one set of programs to run on either IBM or Bull mainframes, Digital Equipment Vaxes, or OS/2 PCs.

The Multi-platform system, as it is called, will also help companies to develop software on one computer and then move it easily to another.

Multi-platform is a layer of software which sits between the proprietary systems software and the software programs which the computer user sees.

#### Mineral oil measures up

HYDRAULICS are an integral part of machines as diverse as construction diggers and production line equipment. But to keep them all working properly requires a regular flow of clean mineral oil.

One of the problems is how to measure the dirt in the oil in order to predict when the machine needs an overhaul. UCC International, of Thoroford in Norfolk, has developed a device which can extract oil from the machine while it is in operation, and measure the contamination level in three minutes.

To use the equipment a sensor is built into the oil-carrying pipe. The CM20 portable unit is then attached to the sensor and extracts a ribbon of oil 125 metres long. Each particle is measured using

light, and from this information the computer in the equipment calculates the contamination level.

#### Executives on the rise

Executive information systems — computer systems designed specifically for company managers and directors — is one of the fastest growing computer markets in Europe, according to Romtec, the computer research company, of Maidenhead.

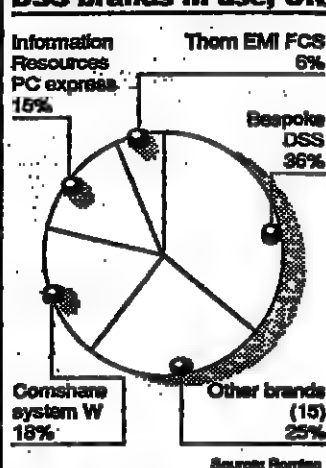
In the four years up to December 1989 the market in the UK, France and West Germany grew by 273 per cent and in the last year by 72 per cent.

The older breed of decision support systems (DSS) grew by 19 per cent over the last year, but have a much larger installed base — worth £90m.

#### On the lookout for speeding cars

A REMOTELY controlled camera that can check the speed of vehicles, photograph car number plates and trace driver.

DSS brands in use, UK



ers has been developed by EEC, of Chesham, writes Lynette McLean.

The camera can identify a car from a barcode on the registration plate and within three seconds a computer instructed by the camera can print the car make, type and colour. The camera could be linked with the UK Driver Vehicle Licensing Centre to print a summons to a driver.

Contact: Andersen Consulting UK, 072 590 0000, UK, 071 435 5500, UCC, UK, 0842 754231, Romtec: UK, 0898 776077, IBM: UK, 0800 486465.



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## When the time comes to bring in an outsider

He has also acquired a 20 per cent stake in the company. Weitz, who owns 88 per cent of

Previously research executives operated on their own or in ad hoc groups. Dubow has created working groups with

Jackson had been impressed by Pye, who had made the initial approach on behalf of Lex, and asked him to become md backed up by the offer of a 25 per cent stake in the business. Pye agreed to join and Jackson became chairman, taking a



Having decided to take a more active role in the company again, Jackson found, like some of his middle managers before him, that it was difficult to fit into the new, more formal structure. "I found myself out of place," he explains. "I wasn't going

Perhaps as important Jackson has more faith in himself as a manager. "I had always been over-awed by big company managers," he says. "I always thought it must be easier to run a small company than a big one. Now I know it is just different."

**Charles Batchelor** reports on a guide to marketing

This distinction between the inward-looking company and its outward-looking counterpart is made in *Successful Marketing for Small Businesses* by Nigel Hill, one of a four-part series\* of small business guides produced by The Royal Bank of Scotland. The inward-looking businessman assumes that the purpose of selling is to ensure the customer buys the product or

However, success in the market place may be determined by apparently fickle preferences, illogical choices or the customer's conservative belief in traditional methods.

The main objective of all firms should be the winning and keeping of satisfied customers, says Hill. Marketing is not primarily about markets, market research or assessing market demand. It is about

*\*Other titles in the series are Successful Exporting, Successful Expansion and Starting a Small Business. Published by Charles Letts. £4.95 each.*

## ■ Innovators and inventors

■ The 17th International Small Business Congress on the theme of Partnership for Global Prosperity will be held on September 16-19 in Seoul, South Korea.

Topics to be covered include the internationalisation of small business, the impact on small business of the liberalisation of financial markets and international subcontracting.

**Michael Grylls**, Conservative MP for Surrey North West, has been named Politician of the Year in a small business awards scheme, the Guildhall Helping Hands Awards, for his work as chairman of the Conservative Trade and Industry Committee and as chairman of the Small Business Bureau, a lobby group.

■ **Buying and Selling Private Companies**, a one-day seminar intended for the owners or acquirers of private companies, will be held in Manchester on June 5. Contact: David Garrick Ltd, 1 de Walden Court, 85 New Cavendish Street, London W1M 7RA. 071-682 0692.

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For further information please contact R. G. Ellis the Joint Administrative Receiver or Peter Engel at Burlington Fabrics (Holdings) Limited, Western Industrial Estate, Lon-y-Llyn, Caerphilly CF8 1XJ. Tel: 0222 861411. Or alternatively at the address below.

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For further information please contact the Joint Administrative Receiver, David Bird or Richard Coates or Colin John at the address below.

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- 72 full and part time employees.
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- Fully fitted servicing workshop, parts facilities and car wash.
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For further details, contact the Joint Administrative Receiver, Ralph S. Preece at the address below.

Eleven Albion Street, Leeds LS1 5EP. Tel: 0532 444741. Fax: 0532 448942.  
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For further information please contact Roger Pearce or the Liquidator David Bird at the address below.

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Tel: 091 261 2631  
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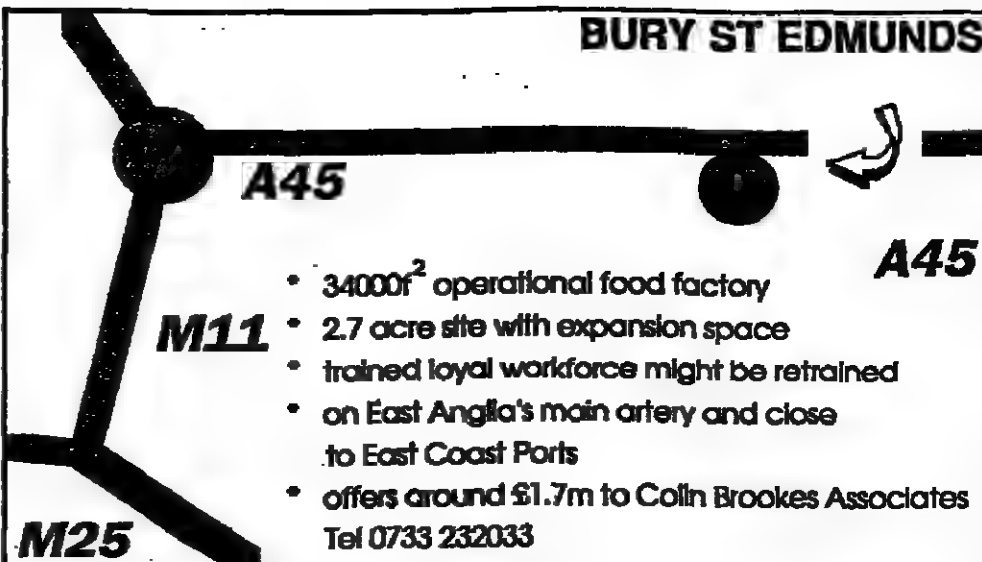
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For further details please contact Nigel Voight, Joint Administrative Receiver, Cork Gully, 9 Grayliffe Road, Reading, Berkshire RG1 1JZ. Tel: 0734 500336. Telex: 648506. Fax: 0734 607700.

Cork Gully is situated in the village of Grayliffe and is a desirable location for a business in the toy industry.

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# Questions which are left hanging in the air

William Packer looks at a not quite definitive exhibition of British figurative work

The Pursuit of the Real, the exhibition now at the Barbican Art Gallery (until July 8, then on to Glasgow), sponsored by Manchester Art Centre and The Paul Mellon Centre, is an anthology of modern British painting put together by the Manchester City Art Gallery, where it was first shown. Glossed in its subtitle as "British figurative painting from Sickert to Bacon," its critical intention to make a definitive survey is clear enough.

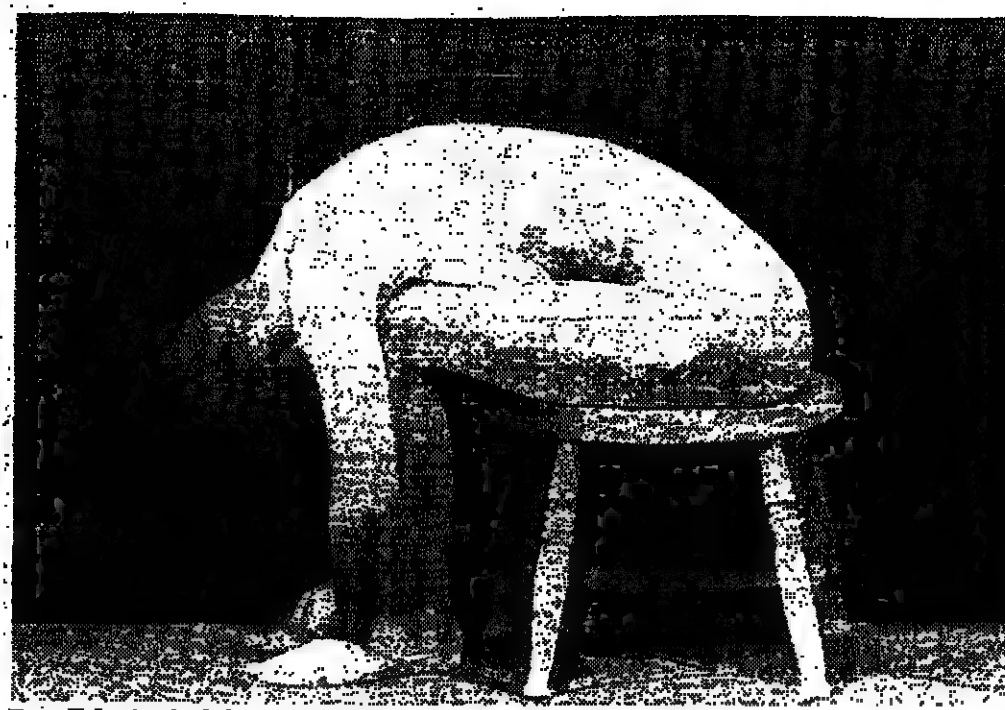
That title is a truism, for all artists pursue reality or they are not artists. Lucian Freud is quoted as saying, in effect, that the perfect painting can never be painted, "on completion of which the painter could retire." But the attempt must be made nevertheless, he suggests, in which the promise of happiness lies, to achieve a work that is true to the experience to which it relates — of seeing, of painting, of being alive and sentient in a living world. It is that truth that is the reality, no more, no less.

Artists are free, of course, to work towards the essential truth on any terms that seem to them appropriate. Here the common premise happens to be direct reference to the visible world, though by two distinct approaches, one of which is towards the real, the other a virtually "constituted" one. The one is the close and direct scrutiny of the subject of the painting (Sickert, Spencer, Freud, Uglow, Coldstream, Wonnacott), with no mark made that does not bear direct relation to what is seen, for all that it must in some degree be

organised, simplified and abstracted. And no image can ever escape the paint from which it is conjured, quite. The other is the more openly subjective and responsive (Bomberg, Auerbach, Kossoff, Bacon), the consciously intuitive response to the presence and experience of the model, constantly reworked until an image is more felt than realised in the paint, at once in sort a physical equivalent of the object and a true embodiment of the act of painting. The relationship between these two approaches is more a continuum than a polarity, no-one quite the same point and several towards the middle, and shifting over time (Sickert, Freud, Andrews, Lessore).

The twelve artists are represented each by a substantial group of paintings hung together. Certain relationships are established by direct proximity, but none that are not already common knowledge — Freud and Bacon, Kossoff and Auerbach, Coldstream and Uglow, Lessore and Wonnacott. Others, perhaps more intriguing, are left hanging in the air across the full width of the gallery. To what extent does Stanley Spencer, in his realist aspect as painter of the portrait and the nude, prefigure Freud? Just how close does Lessore sit to Sickert? Where is the line between the two as grand old man of British painting in the 20th century? Is Bacon the odd man out?

The critical effect of such questioning in principle is rather centripetal than centrifugal — the show flies apart, we come away asking ever



Euan Uglow's "Curled Nude on a Stool"

more questions instead of savouring even an answer or two. Sickert is a major artist by any count, if lately too much neglected, his influence upon later British painting general and profound where Spencer's or Bomberg's was personal or limited to a narrower circle. The absence of anything to place him in his context, of Whistler, Nicholson, Gilman and Camden Town, the Johns and the rest leaves the show treading water.

British figurative painting

from Sickert to Bacon, indeed, to what of that crucial period between the wars, of Murningham, Procter, Newton, Frampton, Munnings, Laura Knight and Ethel Walker? What of the North Brits, the Scottish School that in all this time has been so active? And after the war, can Coldstream's palely conscientious dot-and-carry truly stand alone for the vigour of the academic Sickertian tradition sustained by Greenham, Spear, Weight, Tindle, de Grey, Brooker and Moyman? And what of sports such as

Tristram Hillier, or such notable reason as the new realism of the kitchen sink?

To criticise a show for not being another show that the critic might prefer, is unfair, but here we have promises that in the event cannot be delivered. British art in our period can bear of any number of partial and particular studies, and this is but one of them. Where it is suspect is in the false claim it makes, honestly intended no doubt but ringing untrue all the same, to substantiate the currently

fashionable idea of the existence of a particular school of modern painting, but one of highly dubious critical credentials. The work is fine, but I doubt such a thing as a School of London, in its narrowest sense, has ever existed.

When the London-based American painter R.B. Kitaj used the phrase in his introduction to *The Human Clay*, an exhibition he selected for the Arts Council in 1976, he put it to a very particular use, to embrace a catholicity of achievement and a creative strength he felt were too little celebrated at home or known abroad. "A School of real London in England, in Europe... with potent art lessons for foreigners emerging from this old, put upon, very singular place." What has happened since is that certain enthusiasts have taken it upon themselves as a truth to be demonstrated that a more closely identifiable school actually exists, with the most critically acceptable of figurative painters for members, along with their more obvious acolytes. The nonsense can only come when too much is made of it, as here with this leap from Sickert to Bacon, and the putative connection the title of the exhibition suggests.

All this is not to say that this show is not full of fascinating work, the second of its kind in this country, and that individual works of art, well worth seeing for themselves alone and unlikely to be brought so conveniently together again in a long time. Its fault is merely that of raising expectations, only to leave them unresolved.

## Andrei Gavrilov

### BRIGHTON FESTIVAL

Each year Glyndebourne invites the Brighton Festival for a couple of weekend afternoon recitals. Andrei Gavrilov, the Moscow pianist, filled the theatre on Sunday for an agreeably out-of-the-ordinary programme (sponsored by Ewan MacColl), of Scriabin, Ravel and Prokofiev, delivered forcefully, even remorselessly, but not at all unmusically. Rhythms danced and lashed, the tone clanged but the textures remained clear. "Fingers of steel" is a cliché one can't hope to avoid with this muscular pianist (he is in his thirties), but the metal is of sterling nature. When the storm subsided, Gavrilov can spin as adroitly a melodic line as the new generation of Soviet baritones. The platform manner is friendly but abrupt. No waiting for the audience to settle: the no-nonsense attack immediately secures attentive silence. Little waiting, either, between movements or separate pieces. I wonder how many in the audience not familiar with the seven Scriabin Preludes of the first group were sure exactly when one of these chips of quick communication (the selling not superficial but boiling very near the surface) finished and the next one began. The sensation of much emotion compressed into a small space extended to Scriabin's Fourth Sonata in F major, the second of the movement like foaming sunlight.

The short but satisfying

recital (only one encore, quite firmly) ended with the Eight Sonata of Prokofiev, a bigish work with a good deal of anxiety concealed behind a broad layout with room for lyricism. Just far enough removed from the earlier, "barbaric," naughty-boy Gavrilov's palette here was less, not more, aggressive than in the other composers. The place of honour before the interval went to Ravel's *Gaspard de la nuit*. One can imagine more "poetic" readings (the quotation marks are the giveaway) but few with such a formidable technique put to such hair-raising use. Opaline the water-Sprite had claws. The gilded landscape was ghastly, in "Scarbo" the knives were out.

Music at this year's Brighton Festival has an East European slant. Still to come as well are many more recitals, at the Royal Pavilion, at the Gardner Centre and elsewhere (altogether a generous and encouraging amount of orchestral music), and distinguished orchestras from Moscow and Leipzig. The special attraction is the Polish State Opera of Poznan. During the present week they give, in the Dome, the UK premiere of Puccini's *The Black Mass*, a Salzburg Festival commission of 1986 (Tuesday and Friday), and Chaikovskiy's *Eugene Onegin* (Thursday and Saturday).

Ronald Crichton

## Songmakers' Heine

### WIMBORNE HALL

On Sunday the Songmakers' Almanac celebrated the poet Heinrich Heine for the better part of six hours, counting the two-and-a-half. There was, certainly, a sense of "Yes, we have come through!" at the end. But for the Almanac format, Heine has two great advantages over some other song-writers (and heroines) who struck his best form later (beautiful in Lieli and Brahms); his *Lieder* songs were delivered in fairly broad terms, with too much bluster at the top. Adrian Thompson was luckier, getting the earlier heavy beat in his hand under control for a fresh, heartfelt *Dichterliebe*. The soprano Yvonne Kenny sounded lovely in everything she sang (except, for some reason, Chaikovskiy); the new Welsh bass-baritone Bryn Terfel made a colossal impression, above all in Schubert's "Der Atlas".

Terfel is a singer of precocious achievement and extraordinary potential in this vocal company Richard Jackson's baritone was cut-dressed, but his more specialised talent made its intelligent mark in several songs (and hard work has done wonders for his old vocal frailties). As a quartet, the male voices were tolerably well-tuned, but in the last of their three songs Johnson himself offered unlimited sympathy to his singers and many quick insights in his accompaniments. In slower music he seemed to be distracted — many a Schumann song drifted away from its place by a vagrant, provisional close, never a Schumann device, though within a cycle he sometimes likes a provocative suspension to one the next number.

David Murray

## Floridante

### TOURING

Not all opera companies can afford to give the regular orchestra a night off and hire a baroque band when a baroque opera is being done. Nor, especially in America, can all opera companies venture upon the full staging of a Handel opera in a full musical edition that may be shunned by a Puccini-attuned subscription public. Hence the value of such things as the semi-staged, platform-presented *Hogwood, Orlando*, from the Academy of Ancient Music: a road show that pleased audiences in America and in Europe.

And now the North American premiere of Handel's *Floridante*, which was presented by Tafelmusik, Toronto's baroque orchestra, to audiences in Toronto, Ottawa and Berkeley, California. Alan Curtis conducted an international but largely Canadian cast and I heard it — and with delight — in Berkeley. Delight was tempered, however, by the two disappointments. Cast illness and travel mishap had caused the "semi-staging" to be reduced to pretty well a straight concert performance; and that performance was given in Zellerbach Hall, a big concrete bunker in which voices do not flower.

Handel began *Floridante* when he thought Durastanti would be his prima donna. When she cancelled the season, he adjusted what was already composed and completed the rest for the lower voice of Anastasia Robinson. Zehava Gal, a mezzo of wider range

than Miss Robinson, restored the (unpublished) Durastanti versions of the earlier arias, which were thus having their world premiere. She dropped the last aria, "Si, coronar" ("tends to trundle" in the Dean's phrase for it) and replaced it with the show-stopping "Dopo notte," an aria from *Ariodante*, composed 14 years later, for the castrato Cestini.

It's on a larger scale than anything in *Floridante*, but in a way it seemed a dramatic counterpart to Elmiria's "Notte cara," a wonderful night-piece earlier in the score and in any case Miss Gal's flashing account of it seemed stylistic objection. *Floridante*, the Senesino role, was sung by Catherine Rotaru with aplomb, finesse, and beauty of tone. Nancy Argenta as Rosanne, the seconda donna, was charming, and so was Ingrid Alvar as Timante, her lover.

Tafelmusik is not my favourite band, but Curtis often inspired it to render more than the surface of the music. His dramatic and musical pacing was sure. The opera moved well and it is a good work.

Andrew Porter

## 63: Dream Palace

### MUNICH BIENNALE

The Munich Biennale is everything a showcase of new opera ought to be — firmly guided by Hans Wittenberg, in no sense a figurehead presence but an active, attentive director, generously funded by the city of Munich and local industry, and offering access to all the performing and rehearsal facilities a young composer could possibly want. It is in short the kind of enterprise that our own Garden Venture could become — given the level of funding that any new opera needs to do itself justice — for if the Biennale demonstrates anything, it is that mounting new opera is a half-baked penny-pinching way does no good at all to composers or their audiences.

The current festival is the second, and has already acquired its *secus de secus* in the shape of Wolfgang von Boese's *63: Dream Palace*, staged by Ruth Berghaus, on which David Murray reported has already reported here. Hans-Jürgen von Boese's *63: Dream Palace*, worked up from James Purdy's novel of the same name, is like a dream, in a word, but is an intriguing and tantalising piece of theatre all the same, flawed yet showing genuine theatrical flair and containing passages of striking musical invention.

Von Boese flitted briefly through the concourses of London new music when the London Sinfonietta programmed one of his pieces in the late 1970s; last year the Ensemble Moderne brought another to the Bath Festival. That, a handful of broadcasts aside, has been that. Yet *63: Dream Palace* is von Boese's third opera, preceded by a one-act, *Blutmond*, in 1974 and a

full-scale *Werther*, in 1984.

In one sense, however, knowledge of his previous works is by no means a prerequisite for those who wish to grasp the new opera, for von Boese admits to a sea-change in his style during its composition: "It forced me to become involved with areas such as jazz and rock music, which until then I had completely neglected, and shook my musical views on everything."

Certainly the range of musical references and the stylistic dislocations in *63: Dream Palace* are startling to anyone expecting something in the mould of von Boese's earlier, mostly crafted, exquisitely "heard" pieces, though the best music in the opera is to be found, ironically, in those passages in which his refinement and sense of instrumental colour reassert themselves. It is a brave attempt to come to grips with Purdy's teasing, eloquent novel, however, from which the composer has distilled a taut and thoroughly operatic libretto.

*63: Dream Palace* tells the story of the 19-year-old Fenton, who, after a childhood in rural West Virginia, who on the death of his mother has been mysteriously lured to Chicago with his eight-year-old brother Claire. They squat in a derelict house (the "Dream Palace" on 63rd Street) and Fenton is picked up by the writer Partheart, who offers him a new life with the rich widow Grainger and her entourage of fawning gays. Fenton is pathetically torn between love for his preternaturally wise, religious brother and his desire to better himself — that the "better life" is a mirage, tawdry and exploitative, only sharpens the tragedy. The end is gruesomely

predictable — Fenton strangles his brother in the Dream Palace: "Home, Claire, you're going home at last."

It is raw-edged, desperate stuff, presented in an utterly unimpassioned way. There are surreally comic sections, driven by a manic intensity — a set-piece vaudeville routine for Grainger's acolytes, shorter satires in a bar and a therapy group where Partheart goes to reanimate his flaky marriage. American popular styles infiltrate the score too — not just rock and jazz, but blues (many of the vocal lines in the early scenes could have been lifted from Garth Brooks and his ilk), and they mingle with transfigured instrumental writing of great poise and power: the opening of the opera, strings tinged by accordion, and the close of the first half, a rapt trio for the two boys and the ghost of their mother, linger in the mind. In the end, though, the mixture does not quite cohere; there is too much satire, the work is perhaps 20 minutes too long.

It was staged here by Jonathan Moore (Turnage's collaborator on *Greek* at the last Biennale) with wonderful results and comic sense. The cast was led by Philip Sheffield's gauched, doomed Fenton and Omar Elrahman's shambling Partheart; the role of Claire was shared between two brothers Barry and Alistair Flinter, while Patricia Barton offered an appropriately OTT cameo as the lush Grainger. The Ensemble Moderne was conducted by Alicia Mounk. Not a fully achieved evening, but fascinating all the same.

Andrew Clements

## Swan Lake

### BOSTON BALLET

The Boston Ballet's new production of *Swan Lake*, unveiled at the beginning of May, is an important event, both in the company's development and in the annals of American-Soviet co-operation. Inevitably dubbed the "glasnost" *Swan Lake*, it was conceived and produced by Bruce Marks, the company's artistic director, and staged by Konstantin Sergeyev, director of the Vaganova Institute in Leningrad, with the assistance of his wife, the former ballerina Natalia Dudinskaya.

The scenery, by the American designer John Conklin, was painted and built partly in Moscow, in the Bolshoi Theatre studios, and partly in Boston. The leading roles are being danced by guest artists from the Kirov and Bolshoi Ballets and by members of the Boston Ballet. The Soviet guests are paired not with one another but with dancers from the host company.

Sergeyev first staged *Swan Lake* at the Kirov forty years ago and his rendition is the one in that company's current repertory. Much of the choreography is recognisably the same as that first staged in its entirety in the West by the other Sergeyev, Nicholas, for the *Vie/Welle* Ballet in 1964. Since then, certain changes that reflect Soviet taste or, as some might say, lack of it. For the Western purist the most lamentable change is the exclusion of the mime passages: the Queen Mother's admonition to Prince Siegfried in Act I, Odette's narration in Act II, and Siegfried's betrothal to the impostor Odile in Act III. Equally deplorable is the addition to the cast of the

court jester, who has no dramatic function; his chief reason for being is to spin endless proverbs. In the USSR Odette and Siegfried live happily ever after. At Bruce Marks's insistence, the Boston version reverts to the original, tragic ending of the lovers' suicide, with an apotheosis showing them reunited in stardom.

It has become the fashion in Western productions of *Swan Lake* (and *Sleeping Beauty*) to give the premier danseur a moody solo, and although there is none in the Kirov production, he has one here in fact he has two: one in the middle of Act I and another at the end of the act to the first occurrence of the "swan" theme.

The chief virtue of Sergeyev's production is that it seems Freudian interpretations and other such impositions, so that the principal dancers are free to develop their own characterisations without having to follow some "textual" "concept." The chief defect is musical: the Soviet predilection for tempi that vary from the singhish to the funeral. At the performances I saw, the Bolshoi ballerina Nina Ananiashvili danced with Fernando Buñones, a permanent guest artist with the Boston Ballet, and Boston's Marietta Christine Mousa danced with Konstantin Zakhtinsky from the Kirov. Ananiashvili is a very gifted dancer with beautiful line. As an actress she is a little immature, but she could not detect any chemistry between her and Buñones, whose most emotional moment came when his mother gave him a crossbow for his birthday.

David Vaughan

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## ARTS GUIDE

### OPERA AND BALLET

#### London

Royal Opera, Covent Garden. The heavy, dramatically unimpressive 1989 production of *Il Trovatore* by Piero Fagnoli returns with the Italian tenors Walter Donsi, Eva Randova, and Sergey Lefterov in leading roles, and Edward Downes as conductor.

English National Opera, Coliseum. The return of *The Marriage of Figaro*, in Jonathan Miller's much-revised production, brings back Valerie Masterson, Lesley Garrett, and Ethna Robinson as ENO Musicians, and introduces Steven Page's Count and Gregory Yurish's Figaro.

#### Paris

Bastille Opera. The newly inaugurated controversial opera house presents Jossak's mystical *Kazda Kabanova* in which sensuous love is followed by remorse and guilt and a final tragedy. Ends Sat. (40011516). Paris Opera, *Swan Lake* in Nureyev's choreography after Petipa and Ivanov with the Paris Opera Orchestra conducted by David Coleman and Michel Quirou (4245571). Théâtre de la Ville. Mais Ek and Ballet Collège are followed by Pina Bausch and Wuppertal's *Therapist* with a performance inspired by Macbeth's tragedy (4245577).

#### Brussels

Théâtre Royal de la Monnaie. The Monnaie Opera in Jossak's *From the House of the Dead*. Sylvain Cambreling conducts the

Monnaie Orchestra. Staging by Peter Musbach, acts by Johannes Schütz with Dale Duesing as Orestes, Ronald Hamilton as Skaratos and Stefanie Khaus as Alceia.

#### The Hague

Musiktheater, Netherlands. Opera production of *Salome* by Richard Strauss, with Eva-Maria Westbroek as the lusty Gräfin, and Semyon Semakovich as Herod. The Netherlands Philharmonic.

#### Milan

Teatro Alla Scala. The Scala Ballet Company in Birgit Collberg's *Signorina Giulio* and Paolo Bonolis's *Il Trovatore* in the title role, designed by the choreographer and music by Jacques Charpentier (80.91.26).

#### Rome

Teatro dell'Opera. Last performance this season is Verdi's *Lucia Miller* in Boris Stetka's production conducted by Roberto Abbado. Aprile Millo leads the cast. (46.17.55).

#### Venice

Teatro La Fenice. A fine and much-applauded performance by baritone Renato Bruson in Verdi's *Ernani*, conducted by Donato Benvenuti (alternating with Dario Lantoni). Claude d'Anna's production is done in collaboration with the Regio at Parma and the Bologna Comunale (53.01.61).

#### Berlin

Opera. Götz Friedrich's *Rheingold* production has fine interpre-

tations by Hanna Schwarz, Lucy Petersch, Robert Hale, Matti Salminen and Ekkehard Wlaschka. *Die Walküre* also part of the *Ring* cycle stars Rene Elio, Karen Armstrong, Ute Vinzing, Ute Walther, Warren Ellisworth, Matti Salminen and Robert Hale. Also in repertory: *Don Giovanni*, *Die Meistersinger*, *Madame Butterfly* and *Tosca*.

#### Hamburg

Opera. *Faust* is excellently sung by Josef Protschka in the title role. This week's highlight *Tristan und Isolde* stars Rene Elio, Karen Armstrong, Ute Vinzing, Ute Walther, Warren Ellisworth, Matti Salminen and Robert Hale. Also in repertory: *Don Giovanni*, *Die Meistersinger*, *Madame Butterfly* and *Tosca*.

#### Bonn

Opera. *Die Fledermaus* returns with a strong cast led by Ludwig-Beckmann, Pamela Coburn, Claudia Rueschberg, Kristina Laki and Helmut Lohmer. Last performance of *Madame Butterfly* with Yoko Watanabe outstanding in the title role, Chieko Shirasaki, Neil Rosenblatt and Richard Cowan. The new, successful *Das Rheingold* production brings Wagner specialists Siegmund Nimsgern, Graham Clark, Hermann Becht, Manfred Schenk and Hanna Schwarz together and is conducted by Dennis Russell Davies.

#### Frankfurt

Opera. *Fire/No Sleep* is jointly choreographed by William Fox, Laura Dean, Daniel Lary, and Amanda Miller, Schoenberg's rarely played *Moses und*

### May 11-17

Arus, produced by Herbert Weirich was very successful, when it opened with Gerhard Faustich and William Cochran in the title roles. This week's highlight *Tristan und Isolde* stars Rene Elio, Karen Armstrong, Ute Vinzing, Ute Walther, Warren Ellisworth, Matti Salminen and Robert Hale. Also in repertory: *Don Giovanni*, *Die Meistersinger*, *Madame Butterfly* and *Tosca*.

#### New York

American Ballet Theatre. The 50th anniversary season includes this week Mikhail Baryshnikov's *Giselle* and an evening of Twyla Tharp's choreography. Ends June 30. Opera House at Lincoln Center (852 6000). New York City Ballet. With a repertory still heavily steeped in Balanchine, the company features a festival of Jerome Robbins' ballets in the middle of a season that lasts till July 1. New York State Opera House, Lincoln Center (870 5570).

#### Washington

Washington Ballet. The mixed programmes include works by Goh, Christie, and Cranko set to music, respectively, of Scriabin, Shostakovich and Debussy. Ends May 19. Kennedy Centre Terrace Theatre (467 4500).

#### Tokyo

Kidzessaka. With Philip Langridge, Visions Cole, Edith Wiens, Setji Ozawa conducts the Tokyo Bunka Kaikan (Mon). Bunkamura, Orchard Hall (Thu) (289 9999, 499 1581). Kidzessaka Kaito no Uma. Modern dance by the Kidzessaka troupe, with music by Ryūichi Sakamoto, Tokiwa-za (875 5575). Ends Wednesday.



## FINANCIAL TIMES

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Tuesday May 15 1990

## A shot across Kohl's bows

The setback suffered by Chancellor Helmut Kohl's Christian Democratic Union in two vital state elections is of more than usual significance at a time when German unification talks are entering the home straight. The victory of the Social Democrats (SPD) in North-Rhine Westphalia and Lower Saxony, which together represent 40 per cent of the national electorate, may not be an absolutely reliable pointer to the federal election at the end of the year. There can be no doubt, however, that it does reflect the concern of the voters about the consequences, particularly in the financial field, of German unification.

The most surprising aspect of the elections was the defeat of the CDU during an economic boom in West Germany and so soon after its astonishing victory in the first free poll in East Germany, both of which could have been expected to give Mr Kohl and his party a big boost. While the Christian Democrats could hardly have been expected to overturn the large SPD majority in North-Rhine Westphalia, their loss of Lower Saxony, admittedly as the result of one day's voting, is altogether more serious. As a result, the SPD has won a majority in the upper house of parliament, the Bundesrat, which could make life very difficult for the Chancellor.

The Bundesrat not only has to ratify the proposed treaty between West and East Germany, but can veto the federal government's legislation affecting the states' finances, with obvious consequences for Mr Kohl's plans for financing German unity. The SPD's victory, as the election campaigns and results underlined only too clearly, have provoked fears that the West German taxpayer will be forced to bear too big a share of the cost of helping East Germany to get up with their Western cousins.

## Deprived states

Both Mr Johannes Rau, the re-elected premier of North Rhine-Westphalia, and Mr Gerhard Schröder, the new leader of the Lower Saxony government, emphasised during their campaigns that their states could be deprived of billions of D-marks over the next few years as a result of Mr Kohl's

plans for the Länder to provide as much as one-third of the funding of German unity. In the case of Lower Saxony, with its long frontier with East Germany, the bill could be even higher, since it would lose the large special government subsidies granted at the moment to border regions by the federal government.

## Floating voters

Nor were overall economic forecasts for the year following unification calculated to bring the CDU support from floating voters, in spite of West Germany's current excellent economic situation. Unofficial Finance Ministry estimates, which have been circulating in Bonn, put the probable central Government budget deficit next year at more than DM100m, of which as much as half would come from West Germany. Though Chancellor Kohl and his Finance Minister, Mr Theo Waigel, have repeatedly ruled out tax increases to finance unification, Mr Schröder has argued that these promises are looking less and less credible as estimates of the costs of the whole operation continue to mount.

Mr Kohl cannot afford to ignore the shot across his bows which has been delivered by so large a section of the electorate. He will be obliged to move fast to repair the political damage done to the CDU and his own reputation and to restore public confidence in his unity plans. That may require holding all-German elections, instead of just West German elections, at the end of the year, so that he can exploit the strong support for the Christian Democrats in East Germany, a step already hinted at by Mr Kohl.

The state election results have shown that, as the early euphoria about German unification evaporates, the German people of both East and West are beginning to take a more hard-headed approach to the whole process and seeing more of the disadvantages. They are questioning whether the new reunified Germany will be all to the good, because the long-term problems, particularly in the economic and social fields, promise to be much more serious than at first predicted.

## Patents for pharmaceuticals

THE PROPOSAL by the European Commission to increase the period of patent protection for new pharmaceuticals raises difficult questions. This is not surprising. The plan - expected to take force by 1993 - does, after all, look like a blatant piece of favoritism towards the already successful and highly profitable west European drug industry.

The Commission wishes to compensate for the long development times of new drugs, which frequently absorb as much as 12 years of the normal 20-year patent life. New pharmaceuticals require much more extensive testing than virtually all other industrial products. The trials on a new drug, required by increasingly tough government safety regulations, often involve scientists studying how the product works in tens of thousands of animals or people.

Behind this tortuous process is the praiseworthy ideal of safeguarding public health. But the drug industry contends that it should not be a martyr to this cause, through erosion of patent lives and the resulting competition from makers of off-patent generic drugs, which are normally much cheaper than the original patented product.

Under the Commission's plans, patent extensions for new drugs would be made through a new legal instrument, a "supplementary protection certificate". A drug company could apply for such a certificate after a new product had gained marketing authorisation in any EC nation. The certificate, issued by local patent offices, would add to the patent protection on a sliding scale, depending on the exact time of development. There would be a maximum effective patent life of 16 years. No certificate would run for more than 10 years.

## Unique problems

Although treating the drugs industry as a special case might set an unfortunate precedent, the pharmaceuticals business does, indeed, have its unique problems in the market. A more obvious concern for the EC is that the medicines busi-

ness is already highly profitable. Politicians are more at home with pleas for special treatment from fading industries such as shipbuilding. Against the drug industry, which has a high probability of survival over the long term, this risk arises, says the industry, from higher research costs, increased competition from makers of generic drugs and higher cost pressures on the national health agencies, the main paymasters for pharmaceuticals in Europe.

## Containing prices

The US has already introduced laws to extend patent periods for medicines, a change that helps the drug makers' case in the EC. The US legislation was, however, part of a package that helped generic drug manufacturers too. Thus the amount of data generated by generic drugs have to submit when applying for authorisation on an off-patent product has been reduced. The inclusion of these two elements has helped to contain price rises in the US. Why have such ideas not been included in the European proposals?

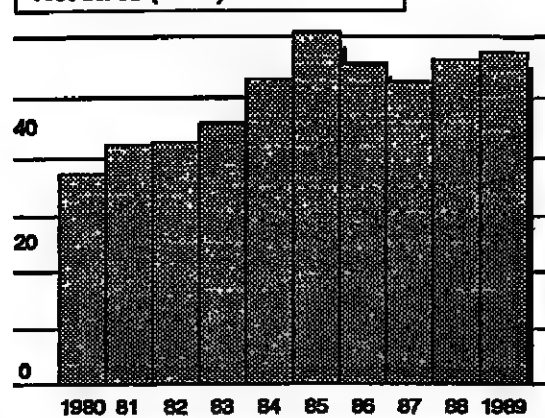
Equally, why has there not been more discussion about the underlying reasons for the long development times that are at the root of the industry's problems? Companies could do more to hone their own research programmes, so reducing the time between invention and a first request to a government office for marketing approval. In many countries the state bureaucracy concerned with sifting through drug-registration data needs to be overhauled as well.

Some of these changes could be made a part of the plan to centralise elements of EC-wide drug approval, which is included in the 1992 programme. There should also be a close look at the safety rules on new drugs. In some cases - AIDS therapies, for instance - new and useful treatments may be taking too long to reach the market place because of caution over safety.

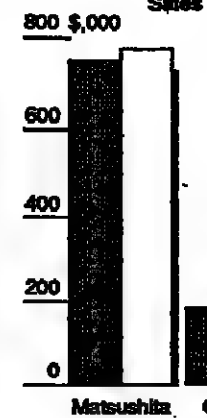
The broad objectives of the Commission's plans on drug patents should be supported. But its proposals provide only a part of the right framework for the industry in Europe.

## PHILIPS

Net sales (Fl bn)



Sales per employee

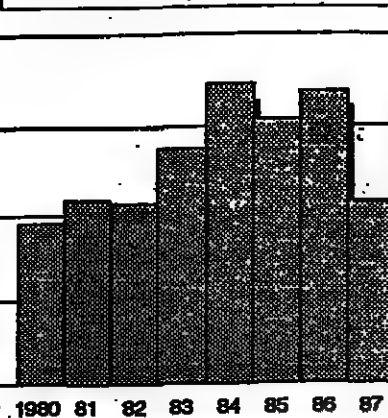


Pre-tax profit margin



## PHILIPS

Income from operations (Fl bn)



Jan Timmer

Sources: Datastream / Morgan Stanley Capital International / Company reports

Guy de Jonquieres and Michael Skapinker on the array of problems facing the Dutch electronics giant

## A sudden fall from grace at Philips

The appointment of chief executives at Philips of the Netherlands has traditionally been as stately and closely guarded a process as a papal election. But yesterday's announcement that Mr Cor van der Klugt is to retire a year early to make way for Mr Jan Timmer at the helm of Europe's largest electronics company had an unmistakable whiff of crisis about it.

Mr Timmer faces a formidable array of challenges, of which the most urgent is to re-build the shattered confidence of shareholders. Until now, that has not been a high priority: Philips has long treated investors with lordly disdain and has been sheltered by elaborate takeover defences from the consequences of its mediocre financial performance.

However, even Philips could not ignore the financial markets' anger and dismay 10 days ago at the collapse of first-quarter operating income, which fell Fl 2.1bn from Fl 2.5bn last year. What really shook shareholders was that the reverse completely surprised the company's top management, which only weeks earlier had forecast a buoyant 1990.

At the very least, the *déjà vu* casts grave doubts on Philips' management and financial controls. Beyond that, it raises still more fundamental questions about the 59-year-old company's hopes of remaining one of Europe's few world-class players in electronics and high-technology.

Mr Timmer inherits a company with Fl 57bn turnover last year, 300,000 employees and operations in more than 60 countries. Under Mr van der Klugt, Philips sold off activities ranging from toothbrushes to defence systems to concentrate on four core businesses. These are consumer electronics, electronic components, lighting and information systems.

Philips is renowned for its excellent research and development, which has spawned innovations including video-recorders and compact discs. However, it has consistently had difficulty turning invention into profits.

Stung by fierce Japanese competition, the company has belatedly sought since the mid-1980s to improve its performance. It has shut more than 70 factories, mainly in Europe, reorganised its sprawling and fragmented business structure into centrally-run product divisions and beefed up its marketing effort.

But these measures, though often painful, have clearly not gone far enough. Not only does the efficiency of many of Philips' operations still compare poorly with the standards of leading international competitors, it is also questionable whether the company has a long-term future in at least two of its core businesses.

The area most in need of Mr Timmer's attention is information systems, which is believed to have lost money in the first quarter. Philips' problem is that its computer

operations are far too small and narrowly-based to survive in a ruthlessly competitive market where even IBM faces a rough ride. It is also weak in telecommunications, having spun off its activities in a joint venture with American Telephone and Telegraph.

Mr van der Klugt has hinted that Philips, recently in talks with Italy's Olivetti, wanted to expand in computers by acquisition. That looks doubtful now, given the company's financial difficulties. It seems more likely that Philips will be forced to dispose of its information systems division or turn it into a joint venture.

The second problem area is electronic components. Here the dilemma is brutally clear. Philips is the world's tenth-largest semiconductor manufacturer and is committed to staying in the forefront of technology. But to do so, it will need to continue making massive capital investments in an unrelenting industry where even the Japanese find it hard to earn profits.

Last year, Philips' electronic components division lost Fl 125m. Strict financial criteria would seem to argue in favour of getting out of the business. However, that would be a politically embarrassing admission of defeat for Philips, which has frequently lectured European Community authorities on their strategic importance of maintaining a viable semiconductor industry. It would also deal a potentially crippling blow to consumer electronics, the company's

largest division. Modern chip technology is vital to maintaining a competitive edge in every type of electronics equipment. All the leading Japanese and South Korean consumer electronics makers are vertically integrated, with extensive in-house semiconductor operations. Philips believes that, without similar capacity of its own, it would lack the critical expertise needed to design and develop new consumer products.

One option would be to turn its semiconductor operations into a joint venture, if a suitable partner could be found. That would reduce what many industry analysts fear will be an unending drain on Philips' cash resources. The disadvantage would be that such an arrangement could be cumbersome to manage and would involve sharing control over vital technologies. In the past, Philips has viewed joint ventures as a graceful way of withdrawing from businesses.

If anyone in Philips can solve these problems, Mr Timmer appears to be the man. He has won respect, both in and out of the company, for his record in rescuing lame ducks. Under his leadership, Philips' consumer electronics division, once regarded by some as a lost cause, has been turned around by a heavy loss-making into the group's biggest source of profits.

Admittedly, this has been achieved with the European Commission, which has repeatedly responded to

entreaties by Philips' well-oiled lobbying machine for anti-dumping action against Japanese and other Asian imports of products such as compact disc players and video recorders.

How far Philips can count on such protection to insulate it in the future is open to question. Japanese and Korean companies are increasingly manufacturing products at plants inside the EC, apparently with little sacrifice of efficiency. Furthermore, levels of EC tariff protection on imports are due to be reduced as part of the current Gatt Uruguay Round trade negotiations.

But the make-or-buy issue for Philips consumer operations may be its gamble on High Definition Television (HDTV), which is due to enter service in the 1990s. Along with Thomson of France, the company has identified HDTV as the critical technology for the future and is preparing to invest heavily in the still unproven assumption that it will win widespread consumer acceptance.

Both Philips and Thomson are deeply involved in backing a proposed EC world standard for HDTV against a rival Japanese system. But even if their efforts succeed, they will still have to show that they can match their Japanese competitors in the market, by manufacturing technically innovative television sets at prices consumers are prepared to pay.

The commercial stakes in lighting, Philips' fourth core business, are less

hair-raising. The company is the world leader and has often relied on the profits and cash flow generated by this business to bail out other activities out of financial difficulties.

However, Philips' profits on lighting fell last year, and increased competition is likely to keep pressure on margins. General Electric of the US has set its sights on expansion in Europe and last year acquired a share of Tungsram, the Hungarian light bulb maker. Other East European manufacturers are also eyeing export markets with greater interest.

The crisis atmosphere surrounding Mr Timmer's appointment gives him a mandate to press ahead with change. The challenge will be to get the vast company beneath him to respond. In spite of its battering at the hands of Japanese rivals, and the successive restructurings of the past few years, top management has often had difficulty communicating a sense of urgency to those down the line.

Philips' long tradition of management by committee has not given free rein to individual entrepreneurial initiative, while its layers of bureaucracy seem more appropriate to a civil service department than a commercial business. That impression has been reinforced by Mr van der Klugt's penchant for public pronouncements on European policy issues.

The company has also been faulted for flinching from decisive action. It took Philips almost 20 years after the EC dismantled internal tariff barriers in 1968 to reorganise the divisions, a European decline in Philips' fortunes. The company has been criticised for simply involved shuffling under-employed middle managers from one part of the company to another. Mr Timmer's record suggests that he is likely to take a much tougher line.

Despite the gloom in Philips' fortunes, the company does possess some financial breathing space. Though relatively highly geared, it owns a wide range of fixed assets with a market value well in excess of the Fl 24.5bn valuation on its balance sheet. If necessary, it could continue to fund its operations largely out of asset sales for some years to come.

The company has already embarked on selling surplus property and wants to end or reduce its involvement in peripheral operations including medical systems and white goods. The question for Mr Timmer is whether he can limit himself simply to trimming the fat - or whether he will be forced into wholesale dismemberment of Philips.

## Correction

In the article "Sweden comes in from the cold", published on the page opposite on May 10, it was wrongly stated that Asea Brown Boveri had acquired Finmeccanica of Italy. Relations between the two groups are in fact confined to an agreement to create two joint ventures.

## Timmer: cut from a different cloth

MR JAN TIMMER is cut from a different cloth than most Philips executives, writes Laura Hann.

He is more tough-minded, less bureaucratic and possessed of a fierce wit. The 57-year-old Philips veteran is more demanding because he has performed minor miracles within the company and expects others to do likewise.

Less readily subject to criticism of Philips, Mr Timmer also learns from his mistakes. After a nasty bout with a couple of journalists several years ago he cultivated a relaxed style, punctuated with humour, to parry irksome questions.

Philips' "old boys network", which

blurs lines of responsibility, was a frequent complaint of Mr Cor van der Klugt, the company's departing chairman.

But Mr Timmer may actually do something about it by demanding more individual accountability and more quickly.

He joined Philips in 1963 and took charge of Ethiopian operations in 1967. He then moved up to regional manager for Africa and general manager of Philips in South Africa.

In 1981 he was appointed president of Polygram, Philips' recorded music subsidiary.

He has been a member of the group management committee/board of

management and head of the consumer electronics division since 1987.

Many investors and analysts give high marks to Mr Timmer, who is credited with turning around the loss-making consumer electronics division. He is seen as almost single-handedly pulling Polygram out of the red and putting it in the black.

Commented one US institutional investor in Philips: "I am hopeful that a more aggressive and more open management will prevail. I hope they will take advantage of the opportunities in Europe, all of Europe."

## Business in the Church

"One third of the people who commit crimes in soap operas are from the business community," says Professor Jack Mahoney, director of the Business Ethics Research Centre at King's College, London.

He speaks as though programmes like *Dallas* are giving business a bad name, which it does not wholly deserve. Mahoney is a Jesuit whose main lectures are in theology. He picked up his interest in business ethics from the American example, particularly the recruitment of non-execs to directorships who might introduce an ethical dimension into boardroom decisions.

He goes round asking questions such as how much is the life of one man compared to the timetable for building the Channel Tunnel? And, on a more general basis: can a corporation be a moral person, i.e. have a conscience?

Mahoney was talking yesterday to a small group of people in Southwark Cathedral - the cathedral set in a business community, as the Provost, the Very Reverend David Edwards calls it. The idea is that if the City is willing to attend, such seminars on business ethics will become regular events at the Chapter House.

The response yesterday was favourable, perhaps not least because Mahoney is a very engaging speaker. "The secret of success in business," he said, quoting Groucho Marx, "is honesty and fair dealing. If you can fake that, you've got it made."

## Market watch

The Stock Exchange has persuaded over 40 of its member firms to donate 1p for every 50 shares they trade, and 1p for every £1,000 worth of gilts to the Thames Tideway later this month. At average daily trading of 370m shares and around £170m in gilts, the sum

raised could be substantial. Note, however, that this act of charity applies only today.

## Kubelik

After 43 years in self-imposed exile, the Czech conductor Rafael Kubelik was back in Prague at the weekend for the opening concert of this year's Prague Spring Festival.

Kubelik founded the Festival in 1946 while he was chief conductor of the Czech Philharmonic. When the Communists came to power two years later, he and his wife and child fled the country with just two suitcases and the violin that had belonged to his father, Jan Kubelik. He worked never to return to Czechoslovakia was a free country again.

So Saturday's concert was an emotional occasion. For Kubelik, now 76, it was a double triumph, because he was conducting his first concert since 1954. After a long and distinguished career, including three energetic years as music director at Covent Garden in the 1950s, he was forced into premature retirement by increasingly painful bouts of arthritis. His last concert in Munich had to be cut short in the middle of a performance of Bruckner's Ninth Symphony.

The announcement that he had agreed to conduct his old orchestra in Prague was therefore treated with some apprehension. But Saturday's rousing performance of Smetana's *My Country* found Kubelik full of his old vigour and inspiration. He is now being urged to extend his comeback.

## Political Scot

James Provan, until last year the Conservative MEP for North East Scotland, has been headhunted to run Scottish Financial Enterprise, the body

## OBSERVER



"We'd like you to agree to a polygraph test, Mr Kesselline."

set up four years ago to promote the Scottish financial community. Which is surprising, since he has no previous connection with finance.

Provan will replace Jack Shaw, a former partner in Deloitte, the accountants, who built up SFE from scratch when the impending Big Bang made Scottish financiers fear they would be left out.

Shaw was well known in Edinburgh and Glasgow and able to get practically every member of the Scottish financial scene to join SFE. In the eyes of the outside world, he was virtually personified it, though he has built up a staff of 11. Now he feels he should do something else.

Provan, who is 53, believes his 10 years in Strasbourg will be useful in the political lobbying that surrounds the enterprise. He also hopes to open the eyes of more SFE members to the European Community, pointing out that, for most of them, North American links still overshadow continental ones.

"There's a profound ignorance of the EC both inside

and outside Europe," he says. "I want to get Scotland the opportunity to manage more continental money."

As for the danger of being bowled out by some complex question on the Takeover Code, or monopolies legislation, he says: "Initially I will take advice from my members. But in due course I should be able to present our case with conviction."

## Big names

If you start at the beginning, two hours spent browsing through the register of British & Commonwealth Holdings' 26,000 shareholders brings you only to the lower "C"s: to David Cowell, in fact.

Still, the browse reveals some well-known names. As at July 6, 1989, the date of compilation of the register, shareholders included Gerald Abrams of Aquascutum (who had no comment), Sir Campbell Adamson, chairman of Abbey National (who confirmed he still has his shares), and Christopher Chataway, chairman of Crown Communications (who said that he, too, still had the shares and did "not expect to see a penny").

Also on the register is Christopher Bressan, a colleague and rival from Chataway's middle-distance running days.

There is an immensely varied group of institutions, ranging from the Bath Steam Laundry Co Ltd to the British Journal of Experimental Pathology.

## As sick as a...

A lady buys male and female parrots, but by the time she gets them home has forgotten which is which. After careful observation of their behaviour together, she identifies the male and sticks a white cardboard collar round its neck to remind her. The next day the vicar comes to tea. "Aha," says the parrot. "I see she caught you at it too."

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## LETTERS

## Nuclear pros and cons

From Mr J.H. Gittins

Sir, Professor Colin Robinson ("Cleaning up the nuclear debate," May 9) advocates a period of debate, probably best started by a green paper, to prepare the way for the mid-1990s review of nuclear power proposed by the Energy Secretary. I agree.

He says that the decision on whether or not to resume ordering nuclear power stations should be based on a proper appreciation of the pros and cons and not on "vague statements." Here, again, I agree. We need to calculate the cost of the millions of tonnes of carbon dioxide, which, by burning coal to produce energy, we dump in the atmosphere.

We need to calculate the cost of acid rain. We need to calculate the cost of nuclear waste repositories and of the impact of nuclear power and fossil fuel upon public health and safety.

We in the nuclear industry have some of the information that will be needed and we are working to broaden our knowledge. It is possible in principle to put a total price on energy, whether nuclear, fossil or renewable and I urge that this should be done to give a basis for a logical decision about the mix of fuels appropriate for the United Kingdom.

J.H. Gittins,  
British Nuclear Forum,  
22 Buckingham Gate, SW1

## The social resistance factor

From Mr Tim Johnson

Sir, As one of those small businessmen whose letters to your paper have shown scepticism about the policy, I certainly welcome the Bank of England's attempt to explain why high interest rates should bring down inflation. Bringing the arguments out into the open means they can be examined.

The Bank's model shows that after four years of a 1 per cent rise in interest rates, gross domestic product is down by 1 per cent and investment is down by 3.2 per cent, all for a mere 0.7 per cent reduction in the retail price index. Do you need much more to explain the endemic stagnation and under-investment in the British economy?

Tim Johnson,  
14 Pass Road, NY

How much do you add to inflation to allow for workers, businessmen and money-lenders applying their ingenuity to trying to avoid the implications of this vicious circle? Is not the supposed long-term gain in inflation wiped out by even a small allowance for this social resistance factor — something which academic economists seem unaware of, but small businessmen understand very well.

The way to break the vicious circle is by first setting interest rates at a low level. How long before some government is brave or desperate enough to try it?

Tim Johnson,  
14 Pass Road, NY

## Television reception from satellite and all the other signals

From Mr John R. Forrest

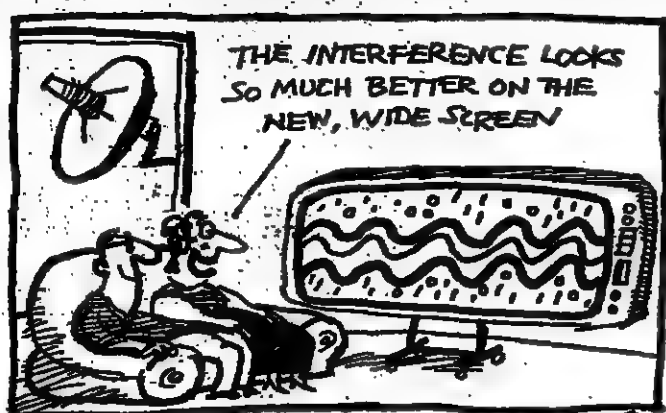
Sir, I was disappointed to read that Christopher Dunkley ("Forward into the past with satellite," May 2) had not received good quality pictures from his SBS satellite receiver.

The pictures and sound are in fact stunningly good and a substantial improvement over terrestrial or satellite PAL when the satellite receiver is properly connected to a modern television set through its "peritel" connector.

This improvement is not seen, of course, if the PAL output from the satellite receiver is used and fed into the aerial socket of the television, since the conversion from MAC to PAL gives signals of no better quality than normal PAL.

Your readers might wish to be aware, however, of the even worse situation which probably occurred in Mr Dunkley's case and which may become more common.

An increasing number of



television sets are being used as the display device for video cassette recorders, one or more satellite receivers, home com-

puters and compact disc video units.

Unless professional advice is taken on how these various signals are combined at the input to the television set or VCR, serious degradation of some of the signals added is likely. This would account for the 'graininess and occasional electronic rain.'

I hope Mr Dunkley gets a chance to see and report on some of the SBS programmes on the superb wide-screen television receivers which will shortly be available. This takes domestic television very close to the cinema viewing experience.

John R. Forrest,  
Director of Engineering,  
Independent Broadcasting  
Authority,  
Cranley Court,  
Winchester, Hampshire

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Independent Broadcasting  
Authority,  
Cranley Court,  
Winchester, Hampshire

## Anti-dumping and competition law in the EC

From Mr J.L. Juret

Sir, Professor Messerlin's reply to criticism of his views on the relationship between anti-dumping and competition law in the European Community (Letters, April 18) adequately demonstrates that he was merely attempting to make bricks without straw in his article "Community rules on a collision course," (February 28).

Presumably, the European Commission could easily refute his latest apology if his views were considered serious enough to merit a reply. Thus, even a layman will appreciate that cases which were between one and four years ago, cannot be said to be limited and he omits to mention that in the nine aluminium cases, the plywood case, the titanium and wood pulp cases and previous cases, no anti-dumping measures were applied, or that plasterboard was a regional case concerning only Ireland.

As far as the synthetic fibres sector is concerned, the only

reason why no anti-dumping measures were applied in the case mentioned in the article was that the quantities exported to the EC were considered to be "de minimis." No representations were made by the Community industry for favourable treatment of US companies taken over by BASF and Hoechst.

Indeed, a long association with the Commission's anti-dumping services convinces one that their decisions have always been based on factual and objective criteria rather than on the pleadings of the interested parties for special treatment. This is also demonstrated by the fact that anti-dumping measures have been applied in the past on imports from foreign subsidiaries of Community companies.

Again on synthetic fibres, Professor Messerlin omits to mention in his letter that the restructuring agreements in 1978 and 1982, which were notified to the Commission's competition directorate, were only

necessary in order to deal with substantial excess production capacity in the Community due mainly to subsidies granted by each of the member states. Since a flood of low-priced dumped imports would have jeopardised the restructuring process, anti-dumping policy in this instance obviously complemented rather than conflicted with competition policy.

The inevitable conclusion must be that Professor Messerlin's contribution to the debate on the links between anti-dumping and competition law merely reflects his lack of understanding in this field, though this is a tendency which is increasingly found in academic circles. If he really considers that Article VI of the GATT should be abolished, then he should say so openly and explain why.

J. L. Juret,  
Director General,  
International Union and  
Synthetic Fibres Committee,  
35 rue de Valenciennes, Paris

## Away with Punch and Judy politics

From Mr Douglas Dale

Sir, Bravo Mary Gough (Letters, May 9).

In the mid-1970s I became disgusted with the House of Commons and called it a place of Punch and Judy politics. Since we have been privileged to see Prime Minister's Questions on television, I have realised how apt that description was.

In 1979 I decided to ignore the wasted vote problem and put my cross against which ever candidate was committed to the introduction of proportional representation.

If the House of Commons reflected the political wishes of the nation, we could never again suffer from the evils of either a far-left or far-right minority government and the majority of the British people would live under policies as near as possible to what they want.

If the whole electorate is spread out in a political spectrum from left to right, we should get, with FR, a government representing the views at the centre of gravity of the strip.

By definition, such a government would give the lowest total segregation to the whole body of voters.

If the Labour Party would sacrifice its now buoyant hopes of the excessive power of a minority government under our first-past-the-post system, we could have, within two years, a government committed to the introduction of FR.

This would bring an end to the excesses of minority governments and to a House of Commons in which Punch and Judy politics is the norm.

Douglas Dale,  
Birch Crest,  
97 Elderslie Road,  
Meir Heath,  
Stoke-on-Trent, Staffordshire

## Extra-costs criticism of pensions Bill unfounded

From Mr R.D. Garvin

Sir, There has been much criticism of the extra costs which will be thrown on to companies which sponsor occupational pension schemes as a result of the requirement for retail price index indexation of benefits both in deferment and while in payment.

I believe that such criticism is unfounded and arises because inflation has undermined the "humane" of many commercial transactions. For example, the Government has borrowed huge sums which

will be repaid in devalued pounds at a later date. Similarly, pension schemes which do not provide index-linked increases to pensioners are in effect cheating their members by reducing their benefits while in payment.

It should be recognised that if inflation were eliminated, pension schemes would not reduce pensions while in payment. Moreover, most funds would be indexed, if there is to be little difference between the cost of providing flat pensions in a world with

out inflation and the cost of index-linked benefits in the real world.

Consequently, critics of the relevant sections of the Social Security Bill should appreciate that the "extra costs" imposed on final salary schemes are not really extra costs at all. The Bill is simply preventing the pension scheme trustees/companies profiting from the inflation effects of inflation.

R.D. Garvin,  
Garvin & Co.,  
47 Rodney Close,  
Redditch, Worcestershire

## Lord Acton: absolutely and accurately

From Mr John Bates

Sir, I am sorry to see your distinguished columnist Joe Rogaly joining the long list of people misquoting poor old

Lord Acton ("Parliament should get off its back," May 11).

At the risk of being pedantic, what he actually noted was

that power tends to corrupt — absolute power, of course, tending to corrupt absolutely.

John Bates,  
29 Cornhill, EC3

## Community Charges: how the knitting got into a right old tangle

From Mr Michael Gregory

Sir, Paying community charges is bad enough. Try advising on them. When have to look at the legislation (as I do advising an association of 49,000 members) and you examine how it came about, you realise why virtually every aspect of the new system for financing local government has been a mishap. The exercise was simply slipshod.

The thorough-going change to the longstanding rating system was bound to throw up baskets full of anomalies. It therefore needed to be tackled in a workmanlike manner. However, instead of thinking it out first in detail, foreseeing the problems and quibbles and fashioning the legislation accordingly, our MPs and ministers outlined the principles and methods of their reform in a green paper. Paying for Local Government, introduced a bill which was skin and bones and extemporised from then on.

The general policy was to get the skeleton measure (the Local Government Finance Act 1988) through and to put the meat on afterwards. Anything awkward could be swept under the carpet and dealt with later by regulations. So an Act of 173 pages was passed with one in every five, on average, giving

powers to ministers to make regulations. The knitting then got into a right old tangle. The result is that it is almost impossible to find, let alone untangle, legislation hitting the pockets of every citizen in the land.

Even before the 1988 Act came into force on April 1, it was substantially changed by some 35 pages of amendments in the Local Government and Housing Act 1989. Then, in the last few months before the new system started, ministers churned out regulations like sausages from a machine. But in the haste to get subordinate legislation in place to make the new system workable by April 1, some of the regulations were not equal to their task, either because of inherent shortcomings or plain mistakes. We are left with another Act and regulations forthrightly amending the principal Act and also regulations amending regulations amending the Act.

There is of course a legitimate role for subordinate legislation where, for instance, figures, dates or lists of detailed items may need to be changed from time to time, but it is not the place for substantive legislation. Parliamentary rules ensure that primary legislation is given line-by-line scrutiny in

each House. Every member has a number of opportunities to table amendments and to debate, approve or oppose each clause. Most regulations are not looked at by either House and frequently come into force within days of being issued.

The important provisions for transitional relief against steep increases in the poll tax, compared with the previous rates, are provided by Schedule 7A of the 1988 Act. But you will not find it in the Act. It is tucked away as a schedule within a schedule of a completely different Act (Schedule 5 of the Local Government and Housing Act 1989). When you find it, the trouble really starts. It is not only incomprehensible to the standard human mind, but it has been extensively amended by subsequent regulations.

The folk do not like the "poll tax" (personal community charge), but at least much of the population have been spared domestic rates. The greater mischief is the standard community charge. This is payable on domestic property which is nobody's sole or main residence. It can be (just) twice the poll tax. Regulations have tried to tackle some, but by no means all, of the problems this weird levy

produces, and to draw lines between domestic and rateable business premises where some business is carried on from home sweet home. All of this should have been thought out before a bill was presented to parliament.

As well as trying to keep the lid on the amount we all have to pay in unity charges and the new non-domestic rates, regulations have tried to deal with a hundred and one not-so-special cases, such as holiday lets, bed and breakfast, historic houses open to the public, caravans and empty houses. A problem that has also had to be solved is that domestic rateable values are used in other legislation to determine issues other than domestic rates. When the rateable values were abolished, being what the measure for, for example, water rates. The solution offered is none too helpful. The new privatised water companies have been given the advice the judge gave to an aged defendant sentenced to 10 years imprisonment.

When the accused protested that he was already 70 years of age, the judge told him: "Do the best you can."

Michael Gregory,  
63 Golly Hill Road,  
Fleet, Hampshire

## FOREIGN AFFAIRS

## The Soviets spring a trap

Robert Mauthner discusses the political hurdles facing talks on German unification

able in its original form, particularly for a political leader facing a vital general election at the end of this year.

Just at the moment when Germany is about to become unified as a fully independent country for the first time in nearly half a century, it is being asked to accept shackles on its sovereignty for another five years or so. During this period the wartime allies would retain their legal rights, Berlin would remain a four-power responsibility and the country would remain divided, at least for military purposes, between Nato and the Warsaw Pact.

Indeed, the Kremlin is probably calculating that, with the growth of nationalist sentiment in a united Germany, coupled with further progress in arms

a fertile terrain for a renaissance of the kind of nationalism that everyone, not least the Russians, wants to avoid.

Yet, important as they are, these cannot be the only considerations in a negotiation as loaded with history and as pregnant with national sensitivities and prestige. The Versailles factor must be borne in mind, not only in the treatment accorded to Germany, but also to the Soviet Union, apart from East Germany by far the most vulnerable of the six participants in the 2 plus 4 talks, in spite of its legal position of victorious occupying power.

After the immense suffering of the Russian people at the hands of Nazi Germany during the Second World War, the fear of a renaissance and unshackled

talks are progressing satisfactorily.

The likelihood that Mr Mikhail Gorbachev and his Foreign Minister will deliver an acceptable agreement on Germany is probably greater than it would be under any foreseeable alternative Soviet leadership. At least they have demonstrated a flexible and conciliatory approach at the outset of the negotiations.

For that reason, if for no other, Mr Shevardnadze warning that the West should not drive Moscow into a corner because of the adverse domestic reactions and consequent hardening of positions that could provoke, should not be dismissed out of hand as a mere negotiating ploy.

The May Day demonstrations against the Soviet leadership in Red Square and subsequent reports of discontent among the military are sufficient indication that Mr Gorbachev is not having it all his own way at home.

In the light of these developments, the view that all the West has to do is to stand firm on its demands that a unified Germany should be free to join Nato may well be over-optimistic. Such a solution may indeed be in Moscow's long-term interests because it would anchor Germany firmly within a multinational alliance and thus preclude individual adventures. But, in this matter, at least, rationality tends to take a back seat to emotion and political expediency.

To overcome Soviet fears and permit a conclusion of the 2 plus 4 talks by the end of the year, the offer of reasonable transitional arrangements for the stationing of Soviet troops in Eastern Germany will hardly be sufficient. Concrete assurances about Nato's non-aggressive military posture will certainly help.

President George Bush has already gone some way in this direction, by scrapping the modernisation of Lance short-range nuclear missiles and nuclear artillery shells based in Europe, and offering the early opening of negotiations on short-range nuclear weapons.

Yet, for historical and psychological reasons, it would still be a traumatic development for the Russians to accept that a united Germany should be a member of Nato. To believe that large economic sweeteners alone will do the trick is to underestimate the magnitude of the other hurdles that still remain before Moscow puts its signature on a peace settlement.

## After the immense suffering of the Russian people at the hands of Nazi Germany, the fear of a renaissance Germany is more deeply embedded in the Soviet psyche than that of virtually any other nation

control negotiations and the progressive creation of a pan-European security system, the question of German membership of Nato would no longer be relevant after five years.

There are thus two good reasons for Bonn and its western partners to reject the Soviet plan in its present form. The first is that, by Mr Shevardnadze's own professed standards of self-determination, an independent state such as a unified Germany should be free to opt for the alliance of its choice.

Since, under the constitutional procedure chosen, East Germany will adhere to the Federal Republic of West Germany, there can be no doubt about the nature of that decision. Second, acceptance by Germany of limitations on sovereignty, even during a transitional period, would keep alive the "German question" and would, therefore, risk creating

Germany is more deeply embedded in the Soviet psyche than that of virtually any other nation.

Moreover, following the "loss" of most of its East European satellites, the Soviet Union's legal and military rights in Berlin and Germany are the last remaining symbols of its wartime achievements outside its own borders, which are unlikely to be abandoned without a stubborn rearguard action.

While the Soviet Union cannot stop unification, it still has the power to prevent a unified Germany from being truly independent by refusing to withdraw its 380,000 troops presently stationed in the GDR. If Moscow has recently soft-pedalled in the Vienna negotiations on the reduction of conventional forces in Europe, this may well be connected to a desire to make sure first of all that the 2 plus 4

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## GERMAN UNIFICATION

### Voters air their misgivings in state polls

By David Marsh in Bonn



Helmut Kohl ruled out postponement

VOTERS in two West German states making up 40 per cent of the country's population gave an impressive electoral demonstration on Sunday of deep misgivings over German unity.

The Social Democrats' twin victories in state elections in North Rhine-Westphalia and Lower Saxony were strongly influenced by fears over the social and economic cost of the merger of the Germanys. Curiously, though, the polls' outcome may not slow unification - but could speed it up.

The reason is that Chancellor Helmut Kohl's loss of a conservative majority in the Bundestag, the upper house of parliament, threatens badly to disrupt government policy-making in coming months.

Mr Kohl's main aim now is to clear up political uncertainty - and to harness to his advantage the present strong conservative voting showing in East Germany.

The Chancellor therefore is moving towards bringing forward, perhaps to the end of this year, the date for all-German parliamentary elections, previously planned for 1991. At a press conference yesterday, Mr Kohl said for the first time that he could not exclude parliamentary elections for both East and West Germany taking place on December 2, the date of the West German general election. However he stuck to his previous position, ruling out any postponement of the elections - a step

suggested by the junior Bonn coalition partner, the Free Democrats.

Increased momentum behind the internal process of fusing the two German states has clear international implications.

Last week, Mr Kohl rejected the Soviet Union's offer to "decouple" the external and internal aspects of unity - a few days after appearing to endorse it.

Holding all-German elections in December would pose great administrative challenges.

But if support for such a move grows there will be growing pressure on the four Second World War victors and the two Germanys to find a speedy formula in the "2 plus 4" talks over a united Germany's military status.

Mr Kohl's domestic political worries reflect the pivotal position of the Bundestag, which groups representatives of the Länder (states). It has a veto over all legislation affecting the states' financial and administrative interests.

This includes tax laws, changes in the constitution and, crucially, the state treaty between East and West Germany which must be ratified in both states before currency union on July 2 can become effective.

The West German Social Democrats yesterday promised a statesmanlike approach to using their Bundestag votes. The SPD now controls seven of West Germany's 11 states - the first

time in the Federal Republic's history that the Left has enjoyed a majority among the state governments. "Our aim is not to block things, but to help shape them," said Mr Johannes Rau, the victorious SPD Premier of North Rhine-Westphalia.

In concrete terms, this means that the SPD-run states will oppose plans by Mr Theo Waigel, the Finance Minister, to offload a large part of unity financing on to the Länder.

Both Mr Rau and Mr Vogel also promised stern opposition to Mr Kohl's proposals to cut company taxation in the next legislative period.

The SPD's ability to influence the monetary union treaty may be only limited, however. The Bundestag is due to deliberate the treaty on June 22. It is unlikely that the new SPD-led Government in Lower Saxony will by then be in place to cast its vote in the upper house.

None the less, Mr Hans-Jochen Vogel, the Social Democrats' chairman, yesterday urged the Bonn Government to "lay its cards on the table" over the costs of unity. He protested that the SPD would not go along with what he termed was Mr Kohl's leaning to carry out unification as "his private affair".

In the next few months of "2 plus 4" talks, Mr Vogel's Social Democrats, in effect, will be seated as an extra guest around the already crowded negotiating table.

## Philips tries to adjust its set

Philips has been promising for longer than most people can remember that it was going to get to grips with its deep-seated problems. So it is easy to dismiss yesterday's management reshuffle as just another, but more brutal, repeat of the same old message.

Whereas investors in other well-managed European multinationals, like Royal Dutch Shell and Unilever, are rarely likely to receive unpleasant surprises, Philips has always demanded much closer scrutiny. It is the sort of stock where handsome returns can be made from short-term trading. But it is not one which can be tucked away with confidence by the long-term pension funds, if for no other reason than that it might not be around, in its present form, in ten years time.

The key question, which will remain unanswered for at least another year, is whether this shakeup will make Philips an attractive long-term investment once again. Given that the new chairman had already been picked, and his promotion is just being accelerated, it is easy to be rather sceptical about the impact of the changes. However, the fact that the board has authorised financial decline, Philips has finally been stung into action by the stock market's response to a terrible first quarter figures, suggests the management has finally woken up to its loss of credibility.

The record of the new chairman is impressive but so are the problems he inherits. Short-term the most pressing task is to overhaul the company's financial reporting. This should be relatively painless. Philips has always looked cheap on any other criterion but profits. It is selling at less than half its estimated breakup value, its multiple of sales to its lowly stock market capitalisation of £12.2bn (£30m) must be a relatively painless task.

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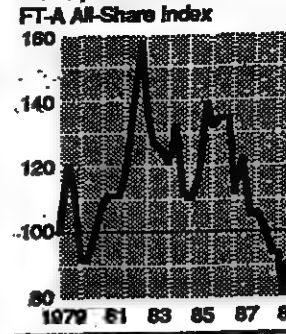
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## Marks and Spencer

Share price relative to the FT-A All-Share Index



1979 81 83 85 87 89

Schroeder, is from the SPD's

Lafontaine-led wing. So one might have expected something more dramatic than the mere 10-basis point rise in the FAZ Index was conducted in only average trading volumes.

As for the Deutschemark, its 2 pfennig fall against sterling was more imposing, but locally, German corporate profitability is most at risk from the SPD, yet the 1.5 per cent fall in the FAZ Index was conducted in only average trading volumes.

It looks as though the market have not thought through the idea that Mr Lafontaine stands a chance of being Chancellor.

It is all too easy to become blasé about Marks and Spencer's rock-solid earning power. Apart from M and S's little local difficulty in Canada, and the near-halving of Brooks Brothers' US operating profits to £13.5m, its annual results should be seen for what they are: another striking justification of the premium rating the group's shares enjoy. Results like last year's 14 per cent increase in pre-tax profits, to \$604m, show just how good a pay-back M and S is getting from recent very heavy capital spending, especially in information technology in the UK.

The best way to look at this is in cash-flow terms. Even after \$60m-plus of capital expenditure since 1985, plus the cost of the \$950m (\$475m) of spent on two US chains, Brooks and King's, M and S has generated more than \$220m of free cash flow in the last full financial year. This performance clearly does not stem from buoyant trading conditions - like-for-like volume growth was only 1.5 per cent in the UK and five - so

much as from strong margin improvements and better working capital management.

Last year's 11 per cent improvement in profits per full-time UK employee is clear enough. But given M and S's net debt is still about £230m, it is hard to explain last year's steep drop in interest payable to \$3m unless better IT is keeping stock levels under much closer control. It now looks possible that M and S could make £750m pre-tax in 1991-2, even without very much from Brooks, M and S is a long way from going ex-growth, even in the UK.

Markets

The London equity market was far too busy celebrating Wall Street's latest surge to notice the producer prices and retail sales figures. But April's one percentage point rise in both statistics was too alarming to be ignored. In combination, the figures suggest that demand is sufficiently strong at the moment for producers to pass their cost increases straight through to consumers.

At the very least, the 6.1 per cent annual increase in producer prices - up from 5.1 per cent six months ago - and the largest rise for seven years - ought to subside optimism that the headline inflation figure was limited to "only" 9.4 per cent.

But just as two weeks ago, the market was taking a determinedly pessimistic view of economic and political trends, its current vision is rose-tinted. Why should the equity market worry about inflation when gilts, which gained another half a point yesterday, are enjoying such a steady rally? In any case, the retail sales increases may have been caused by the late Easter break; and the producer price figure owed a good deal to the indexation of excise duties.

Now the FT-SE 100 index has recovered back over 2200, traders might decide to draw breath. Share volume has been very thin, following on from a 10 per cent quarter-on-quarter decline in the first three months of the year. And there may be more bad news to come than the market can readily ignore. The steady drip of quoted company revaluations continues - there were two more yesterday - and the current annual general meeting season may produce more profit warnings even worse than GKN's. And if April's current account deficit tops £2bn, even the Treasury will have run out of excuses.

Germany

Sunday's ultimate horror - an unambiguous West German electoral victory for a party whose name begins with S - did not cause the across-the-board panic in financial markets that might have been expected. Not only did the SPD's win in Lower Saxony give them control of the Bundestag; but its engineer, Mr

Although the judge said his jurisdiction only applied to England and Wales he made clear that investors in Scotland and Northern Ireland would not be precluded from making claims.

The SIB said after the hearing, however, that any claims would be complicated by having to deal with the company's Belgian liquidators.

The court heard that \$1 billion in the UK had been lent to Vandersteele, either in response to unsolicited telephone calls from Belgium or to press advertisements. Vandersteele had promised to invest the money in traded options and futures.

The SIB believe that there may have been other investors in Vandersteele who have not yet made themselves known.

The SIB also won a court order to obtain further information about Vandersteele's activities in the UK and to prevent documentary evidence from being tampered with or destroyed. Vandersteele was not represented in court.

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## Airbus denies Indian \$1bn bribe allegation

By Paul Betts and Richard Denkin in Toulouse

AIRBUS INDUSTRIES is expected to take legal action this week in an effort to quash preliminary charges prepared by police in Bangalore, India, alleging that officials were bribed to buy two Airbus A-320 aircraft in a deal worth about \$1bn.

The charges arose out of investigations launched after one of the aircraft crashed in India killing 31 people in February.

The legal action by the consortium European aircraft consortium coincides with the start of a public inquiry in Bangalore into the crash.

Three former senior Indian Airlines officials and a former Indian government official are named in the report accompanying the charges which allege that "considerable monetary consideration" passed between Airbus Industrie and highly placed civil servants and mid-levels to secure the deal.

A senior Airbus official in Toulouse, France, said: "We are not concerned by these allegations, which are related

more to oriental fancy than fact."

Airbus lawyers are preparing to file a petition to have the charges invalidated.

The controversy over the A-320 crash is turning into an increasingly difficult and costly dilemma for both Airbus and Indian Airlines, the state-controlled domestic carrier.

Airbus currently has four A-320 aircraft worth a total of \$100m lying idle at Toulouse, waiting to be delivered to Indian Airlines. The airline is also committed to buying a further 12 A-320 aircraft.

Delivery of the new Airbus aircraft has been blocked by the Indian Government's decision to ground the existing fleet of 14 A-320s in India following the crash.

Mr V.P. Singh, the Indian Prime Minister, has decided that the aircraft should stay grounded until the end of the judicial inquiry into the crash. This could take another six months.

Airbus and Indian Airlines held their first meeting since

the crash last week at the airline's request. Both companies are anxious to resume A-320 operations in India.

The grounding of the aircraft is putting intense financial pressure on Indian Airlines, which is likely to need bail-out by its Government shareholder.

Airbus could invoke financial penalties if the contract is broken but it has so far adopted a conciliatory approach because of the importance of the market.

"India is a major commercial aviation market with strong growth potential", a senior official said. Airbus is currently negotiating the sale of its new A-340 four-engine long-distance aircraft to Air India, the Indian international flag-carrier.

Airbus also warns that a rupture in its existing contract with Indian Airlines over the additional sale of 12 A-320s would have serious consequences in India's relations with Europe. Airbus is worried that the US is putting pressure on India to try to win back

most vulnerable to a downturn.

Last year its return on net assets was 7.5 per cent, well short of the 20 per cent target for the group as a whole.

Over the past four years Brymbo, which had relatively old-fashioned production processes, had had only \$26m (\$13.4m) invested in it. Production will be transferred to UES' other main plants at Stockbridge and Rotherham in Yorkshire which have had substantial investment to install low-cost continuous casting technology.

Ford profits down 26 per cent, Page 12; Commercial vehicle sales still declining, Page 12; UK economy, Page 10

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## Welsh steel plant closure signals slowdown

By Charles Leadbeater, Industrial Editor, in London

A NORTH WALES steel plant which is heavily dependent on orders from the vehicle industry, is to close with the loss of 1,125 jobs.

The closure of the Brymbo steel plant, announced yesterday by United Engineering Steels (UES), the plant's owner, is one of the clearest signals yet that the gathering slowdown in the UK economy is starting to spread from retailing and construction into manufacturing.

UES is Britain's second largest steel producer and one of Europe's leading producers of special engineering steels, with 75 per cent of the UK market and 20 per cent of the continental European market.

Output at UES, which sells

81 per cent of its steel to the car and commercial vehicle industries, is 12 per cent down on last year, largely because car and truck orders have been hit by high interest rates.

UES said it was operating its plants at only 75 per cent of capacity, with its four melting shops working only shifts of two weeks compared with 16 and 20 shifts at plants in continental Europe.

The move comes only a week after GKN, the engineering group which jointly owns UES with British Steel, issued a profits warning.

The closure, coming amid the continuing slowdown of demand from the car and construction industries, may renew fears voiced by opposi-

tion Labour Party MPs about the medium-term prospects for British Steel plant Ravenscroft in Scotland which had an extended production shutdown at Christmas.

Steel has been manufactured on the Brymbo site near Wrexham since 1792.

The closure comes just three months after UES announced the closure of FH Lloyd Engineering Steels, the last steel maker in the West Midlands of England, as part of a rationalisation of its plants to concentrate production at the lowest cost sites.

The Brymbo plant, which accounts for 20 per cent of UES' annual production of about 2m tonnes of liquid steel, has long been considered the

most vulnerable to a downturn.

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## INTERNATIONAL COMPANIES AND FINANCE

## Rhône-Poulenc acquires garden products units

By George Graham

RHÔNE-POULENC, the French state-owned chemicals group, said it will become Europe's largest supplier of garden maintenance products with the acquisition of the garden care activities of Shell Agrar in West Germany and Torfa in Belgium.

The French group was already present in the garden chemicals sector with around FF450m (\$81.6m) a year of sales in France, Belgium, Italy and the UK, where it sells under the name of May and Baker Garden Care. It said the two separate acquisitions would give it 15 per cent of the European market.

The European gardening products market is valued at FF3.5bn a year, just behind the US market, with sales of FF4.6bn a year in insecticides, weed killers and other disease treatments, FF2.9bn a year in

soil conditioners and FF1.8bn a year in house plant products. The garden division of Shell Agrar, a unit of Deutsche Shell, accounted for FF380m of sales last year, and will give Rhône-Poulenc a 28 per cent share of West Germany's garden treatment products market, with the Cefalor brand, as well as the Etisso brand for house plant products. It will also reinforce Rhône-Poulenc's position in its domestic market, where Shell Agrar's Sovilo and Fertilegène brands rank second behind its own KB brand.

Torfa, based at Rumst between Brussels and Antwerp, is a small supplier of the Belgian, Luxembourgish and French markets, with FF36m of sales last year. Rhône-Poulenc officials said Torfa is highly specialised in the soil condition sector.

## Trinkaus seeks DM78m

By Katharine Campbell in Frankfurt

TRINKAUS & Burkhards, the Düsseldorf-based bank 70 per cent owned by Midland Bank of the UK, is raising DM78m (\$49m) through a one-for-ten rights issue at DM390 a share. The rights price represents around a 13 per cent discount on yesterday's market value for the shares.

Midland Bank will take up its full entitlement to the new shares. Trinkaus did not specify how

the proceeds from the rights issue, which is the bank's second since its flotation five years ago, would be spent.

Last month the bank announced a small increase in 1989 group partial operating profits to DM74.9m from DM72.1m in the previous year. Total group operating profits declined, although they would have been higher if pending profits from warrant issues had been included.

## Stad Rotterdam profits fall

By Our Financial Staff

STAD Rotterdam, the big Dutch insurance group, yesterday reported lower profits for the first quarter of 1990 but said earnings for the whole year should show an improvement. The group's first-quarter performance has been severely hampered by weak non-life experience with operating profits from the division falling to F1.21m (\$1.15m) from F1.79m

in the first quarter of 1989. The result is that group net profits for the quarter have fallen by a third to F10.8m, from F15.5m in the 1989 quarter. Revenues in the period were F159.4m compared with F153.5m. Stad Rotterdam said it had been badly hit by the need to provide against severe storm damage in the early weeks of 1990.

## NEWS IN BRIEF

## Hochtief to hold payout at DM10

HOCHTIEF, West Germany's biggest construction group, is to hold its dividend at DM10 a share for 1989. The company plans to provide full 1989 financial results on May 22, AP-DJ reports.

In February, Hochtief said pre-tax profit had improved and that group construction volume, which includes projects that have not yet been billed, increased 16 per cent to DM5.46bn (\$3.23bn) during the year.

Hochtief, which is part of the RWE utility group, said volume growth in 1989 was paced from its foreign operations, where volume climbed 28 per cent to DM1.96bn. Domestic growth climbed 11 per cent to DM3.5bn.

Instituto Nacional de Industria, Spain's state holding company, has appointed Mr Miguel Aguirre to the board of state-owned airline Iberia Líneas Aéreas de España prior to his election as its chairman, Reuters reports.

The appointment of Mr Aguirre, who was chairman of INI's shipyard division Astilleros Españoles will be ratified by Iberia's annual meeting in June. He will replace Narciso Andrea as chairman of both Iberia and its charter unit Aviaco. Mr Andrea, who has been chairman of Iberia and Aviaco since 1985, has asked to be relieved of his duties. He is expected to be appointed chairman of Banco Español de Bélgica, the Belgian subsidiary of Banco Exterior, the state-controlled bank.

TF1, the French television station, and its main shareholder, construction group Bouygues, have signed an agreement with Swedish communications group Industrieförvaltning AB Kinnervik to co-operate in the field of television, Reuters reports.

The three partners have decided initially to look into the possible acquisition of Baseline Entertainment, which Sweden's Baseline put up for sale earlier this year. The division includes the leading distributor of video cassettes in northern Europe as well as the Filmmat pay-television station.

## Fertile times for Kemira and Norsk Hydro

Peter Marsh looks at the steady expansion of two Scandinavian fertiliser makers

Would you like some shares in a fertiliser company? Fertilisers are not the most glamorous, high-growth sector and the question is guaranteed to send even the most enthusiastic investors fumbling for an excuse.

While most of the world's large fertiliser groups have had a thin time in recent years, with share prices and profits in the sector distinctly unimpressive, two companies have been riding high.

They are Norsk Hydro of Norway and Finland's Kemira, the first and second biggest fertiliser makers in Europe. In the past decade, both have steadily built up capacity in this area, often through buying divisions of other fertiliser groups. Kemira alone has spent FF1bn (\$37m) in the past five years in acquisitions in this field, more than tripling its European fertiliser production capacity to about 7m tonnes a year. Norsk's capacity, all in Europe, is twice this, making it the number one fertiliser producer worldwide.

Both Norsk and Kemira have increased their capacity in Europe outside Scandinavia as part of a broad strategy to gain a firm foothold inside the European Community prior to the planned elimination of trade barriers after 1992.

In the case of Kemira, Finland's biggest chemicals company, the moves in fertilisers are part of a broad, general expansion which has seen the group double its sales over the past six years to FF11bn last year. In addition to fertilisers, Kemira has a strong position in paints and general indus-

trial chemicals and is the world's fifth biggest maker of titanium dioxide, a white pigment used in paints, plastics and fibres.

Fertilisers add up to a \$50bn-a-year business worldwide, but in most countries outside western Europe the sector is highly fragmented with local producers, often relatively small, having the largest market shares.

In western Europe, the fertiliser market has been generally depressed for several years, as a result of several factors. Many of the large companies in the business have had excess capacity; there has been poor demand from farmers whose own industry has been in trouble; and cheap imports from other countries, in eastern Europe for example, have undercut prices. Also environmental pressure against over-use of fertilisers, which have been linked to pollution of rivers and some health problems, has helped to restrain sales, particularly in the developed world.

In this less than booming sector, consolidation has occurred. The number of large independent fertiliser companies in western Europe has been reduced from 56 in 1980 to 28 this year, according to Kemira.

Despite the poor position of the industry as a whole, both Norsk and Kemira are making reasonable profits in fertilisers, in contrast to other large European groups in this industry such as Imperial Chemical Industries of Britain and West Germany's Hoechst. ICI, in particular, has had a hard time in fertilisers in recent years. In

## WEST EUROPEAN FERTILISER MAKERS (1989 capacity per year)

	(in tonnes)
Norsk Hydro (Norway)	13.0
Kemira (Finland)	7.1
Eni (Italy)	5.1
Elf Aquitaine (France)	4.8
BASF (W Germany)	4.2
Ercros/Enfersa (Spain)	4.4
ICI (UK)	4.3
DSM (Holland)	2.6

\*After completion of take-over of parts of Elf (France) - Eni (Italy) - Elf Aquitaine

both 1988 and 1989, while the rest of ICI's divisions were booming, its fertiliser units lost money.

Norsk and Kemira may, it is thought, benefit from state ownership in the sense of having a longer-term perspective and not having to worry about ups and downs in their share prices. Mr Pertti Laurila, director of business development in Kemira's agriculture division, denies that in the case of his company this means his group has an unfair advantage.

"Being state-owned does not make any difference; we act just like a private enterprise company," he said. Mr Geoff Pyke, a fertiliser expert at Chem Systems, a London-based chemicals consultancy, said that both Kemira and Norsk differed from other fertiliser groups in terms of commitment and investment strategies.

"They (the Scandinavian companies) have gone for large, efficient plants in well-

located positions. The other companies (in fertilisers) seem to be in more of a hanging-in mode."

In their Scandinavian plants, both Norsk and Kemira have an advantage in terms of access to large and relatively cheap supplies of natural gas - a vital ingredient in manufacture of nitrate-based fertiliser, the most important type of agricultural nutrient.

The natural gas is used in a transition stage in nitrate production which involves synthesis of ammonia. The other two main types of fertiliser are based on potassium and phosphorus as the essential elements added to soil.

The two Nordic companies have also put a lot of effort into building up the marketing-related aspects of the business. "At Kemira we have tried to stress good distribution facilities and build highly flexible plants that can be switched around to meet different needs," said Mr Laurila.

The marketing will be stressed even more in the future, said Mr Finn Huistendahl, vice president at Norsk.

"We will spend more money in the next few years on distribution and deposits than on new plants."

Mr Huistendahl said an important part of Norsk's strategy had been cutting costs, from a viewpoint of energy and staff numbers. Production of nitrate-based fertiliser, in particular, is highly energy intensive and benefits from modern energy-efficient technology.

Europe's fourth biggest fertiliser maker is Elf Aquitaine,

the state-controlled French oil and chemicals group. The company has gained its fertiliser interests by dint of its takeover of Orkem, another French chemicals company which has built up its fertiliser interests in recent years.

Mr Loik Le Floch-Prigent, Elf Aquitaine's chairman, said fertilisers are an inherently cyclical business which is unlikely ever to make large and consistent profits. None the less, he said, the business "is improving quite a lot" and he believed prospects were reasonably good.

For the investor in chemicals, a chance to take a gamble on how fertilisers will develop might come next year, when up to a quarter of the stake in Kemira is likely to be floated off to private investors.

No announcement on this has been made, but a partial privatisation of the company is thought likely because of pressure on the Finnish Government to reduce its stake in public enterprises. Kemira's management has also pressed for the change on the grounds that it would give the company greater flexibility in raising funds from the investment community.

The long-term outlook for Kemira's fertiliser division and for the industry as a whole will depend less on any moves towards privatisation and more on external factors such as overall levels of agricultural activity and what happens on a broader environmental front. Whether the business can shake off the doldrums of recent years is a question many in the sector are far from certain about.

## Pharmacia down 28%

By Jack Burton in Stockholm

PHARMACIA, the Swedish pharmaceutical and biotechnology group, saw profits after financial items fall by 28 per cent to SKR198m (\$31m) during the first three months of 1990. Sales rose 8 per cent to SKR1.89bn. But the company repeated its previous forecast for the year, which predicted that profits will increase as sales outpace cost growth.

Pharmacia said it had expected first-quarter profits to be lower than last year's, which

were inflated by exceptional factors. The results were also hit by bigger amortisation costs and foreign exchange losses of SKR6m. Pharmacia, which merged last year with Procter, noted the planned divestiture of units, which would boost income, had been delayed until the merger is completed.

It is satisfied with the slower growth in costs for administration and marketing, which rose 5 per cent against 20 per cent.

## Wessanen set to reach deal with Karlshamns

By Jack Burton in Stockholm

WESSANEN, the Dutch food group expects to reach an agreement to transfer the capital of its Friswase unit to Karlshamns, the Swedish oils and fats group, Reuters reports. No financial details of the transaction were given.

Friswase manufactures oils and fats for the chocolate and confectionery industries and employs 169 people with an annual turnover of about F125m (\$122m).

## Air Liquide to build unit

By George Graham

AIR Liquide, the world's leading industrial gases group, is to invest FF180m (\$29m) in a new liquid hydrogen unit in French Guyana to power the Ariane 4 and 5 rockets produced by the European joint venture Arianeespace.

The group has signed a supply contract with France's National Space Research Centre (CNES) to build the plant, which will produce 10m litres a year of liquid hydrogen and come into operation in the

autumn of 1991. It will replace the existing supply of liquid hydrogen shipped to Ariane's Kourou launch site by container.

Air Liquide said last week it planned to merge its Danish interests with Hede Nielsen, the country's largest industrial gas supplier. The two companies will create a joint holding company, Hede Nielsen Investment, controlled by the Hede Nielsen family, with Air Liquide in the minority.

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By: Bankers Trust Company, London, Agent Bank

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Notice is hereby given that, following the Rights Issue of 119,999 New Ordinary Shares on a 1 for 3 basis at 152 pence per New Ordinary Share announced by Harrison & Crossfield plc on 10th May, 1990, the Conversion Price of the Convertible Bonds has, in accordance with the Trust Deed dated 14th July, 1983, been adjusted from 177 pence to 172 pence per Ordinary Share with effect on and from 10th May, 1990.

By: The Chase Manhattan Bank, N.A.  
Principal Paying and  
Conversion Agent  
15th May, 1990

**Shawmut Corporation**  
U.S. \$50,000,000  
Floating Rate Subordinated Notes  
Due 1997

Notice is hereby given that the Rate of Interest has been fixed at 8.8125% and that the Interest payable on the relevant Interest Payment Date August 15, 1990 against Coupon No. 22 in respect of US\$10,000 nominal of the Notes will be US\$225.21.

May 15, 1990 London  
By: Citibank, N.A. (CSSI Dept.), Agent Bank

**CARPS Limited**  
(Incorporated with limited liability in the Cayman Islands)  
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For the period 14th May, 1990 to 14th November, 1990 the Notes will carry an interest rate of 8 1/8 per annum with a coupon amount of U.S. \$4,536.11 per U.S. \$100,000 Note payable on 14th November, 1990.

By: Bankers Trust Company, London Agent Bank

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Coupons maturing on June 30, 1990 and prior thereto should be detached and surrendered in the usual manner. Interest on Registered Securities due June 30, 1990 will be paid to the person in whose name the Security is registered at the close of business on June 15, 1990 (the "Record Date") in the usual manner.

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May 15, 1990, London  
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May 15, 1990, London  
By: Citibank, N.A. (CSSI Dept.), London Branch, Agent Bank



## S Australian state bank to absorb NZ building society

By Terry Hall in Wellington

STATE BANK of South Australia yesterday announced plans to become the fifth largest banking group in New Zealand by absorbing the country's United Building Society.

The society, which has assets of NZ\$2.5bn (US\$1.4bn), has been seeking a powerful backer since a well-publicised run on its funds due to rumours some 18 months ago when the media portrayed long queues at its branches.

While it overcame this crisis, it apparently acted to constrain its growth, and put on an end to its own plans for a bank licence and stock exchange listing.

Under the proposals revealed yesterday, the aggressive State Bank of South Australia will

subscribe NZ\$150m in capital to help turn the society's existing 66-strong branch network into a bank. It will also offer various cash and interest incentives to the society's members, who are to vote on proposals to turn the society into a limited liability company and seek a bank licence at a meeting in Christchurch on June 6.

A number of regulatory consents are required, including approvals from the Overseas Investment Commission and Registrar of Building Societies. The Reserve Bank will also have to grant a banking licence. The bank would be a formality, however, as State Bank has held a licence since 1988, when it bought the local wholesale busi-

ness of the US-based Security Pacific.

If it gains the necessary approvals, State Bank's asset base in New Zealand will stand at NZ\$4bn on June 30. United Building Society last year reported a profit of NZ\$11.1m, although NZ\$7.6m came from planned property sales to strengthen its capital adequacy provisions.

State Bank said the two organisations were remarkably similar. Both were headquartered outside their countries' main cities (in Adelaide and Christchurch), which gave them considerable benefits, and both were extensively involved in home loans, property and stock-broking.

## Taiwan may get first Japan bank in 20 years

By Gordon Cramb

TAIWAN may soon gain its first new Japanese bank outlet for nearly 20 years in spite of resistance by the authorities in Tokyo, which are wary of disrupting Japan's relationship with mainland China.

Bank of Tokyo, one of the country's largest banking groups, is in talks aimed at setting up a representative office, perhaps as early as July. Dai-ichi Kangyo Bank (DKB), the only Japanese bank already in Taipei, began its operation in 1959.

Other banks withdrew after Japan switched its recognition to China from Taiwan in 1972. Some are now exploring the possibility of a presence in Taiwan, which is moving to downgrade its financial mar-

ket. Foreign banks, which are being allowed to tap part of the huge pool of Taiwanese savings, will now be able to convert a representative office into full branch status after a year on the island, rather than the previous two years.

The Ministry of Finance in Tokyo says it cannot restrict the opening of representative offices abroad, for which it needs only prior notification. Setting up a branch, however, requires its permission, which in the case of Taiwan it has been reluctant to grant.

According to a ministry official: "Opening branches is rather difficult diplomatically." He added: "Banking managers should think about their own business in mainland China and consider the balance."

Bank of Tokyo has a special role as Japan's main foreign exchange bank, and its absence from a market as large as Taiwan is exceptional. Significantly, in the past year some 10 per cent of Taiwan's nearly US\$70bn in official reserves has been moved into Japan, where previously nearly all was held in the US.

The medium-sized International Commercial Bank of China is the only Taiwanese bank to have a branch in Japan. However, bankers believe that at least one of the island's big three banking groups, which are in the process of being privatised, will soon seek to set up in Tokyo. Chang Hwa Commercial Bank is said to be the most likely candidate.

## Income surge at Daiwa House

DAIWA HOUSE Industry, Japan's second largest home builder, said yesterday its pre-tax profits jumped 43.6 per cent in the year to March to ¥63.24bn yen (\$414m), AP-DJ reports from Tokyo.

Net income surged 61.3 per cent to ¥31.83bn. Sales climbed 19.1 per cent to ¥664.8bn. Daiwa's pre-tax profits of ¥14.04bn in the year to March, up from ¥9.74bn. Sales were ¥157.4bn against ¥139.2bn. Our Financial Staff writes.

It expects profits to rise further to ¥15bn on sales of ¥197.5bn.

## Trump Shuttle 'meets running cost'

By Roderick Oram in New York

THE TRUMP Shuttle is still more than 18 months away from turning in a net profit although it has recently begun to cover its operating costs, Mr Bruce Nobles, the airline's president, said yesterday.

Since Mr Donald Trump, the New York real estate developer, said recently he would consider offers for the airline, "we have received some expressions of interest and we are providing information but there are no offers and no negotiations," he added.

Continuing net losses at the airline, because of its heavy debt burden, prompted Mr Trump to put the airline on the block, analysts believe. He bought it last June from Eastern Airlines for \$66m, financing the purchase and refinancing with an estimated \$400m of debt.

Mr Nobles declined to comment on newspaper reports that the Shuttle had run up net losses of \$85m under Mr Trump's ownership, a figure higher than earlier estimates. "We'll begin to show a net profit by the beginning of 1992," he said.

In contrast, the Pan Am Shuttle, which shares the Washington-New York-Boston shuttle monopoly with Trump, is believed to be currently profitable, although Pan Am does not break out results from its total airline figures.

Eastern earned an average of \$19m net profit on the Shuttle in the five years before it sold the operation to Mr Trump.

Pan Am and Eastern's shuttle operations would have turned in similar results to Trump's if their costs were allocated properly rather than



Donald Trump reckons Trump Shuttle is worth \$600m

carried in part by the companies' other airline operations,

Mr Nobles said. But the other shuttle operations had much smaller debt loads than the Trump Shuttle which has to meet an interest bill of at least \$40m a year, analysts estimate, out of total revenues of only about \$200m.

To cover interest payments, Trump would need an operating profit margin of around 20 per cent whereas other airlines consider 15 per cent high in today's market conditions.

"Given the scale of the operating losses and the overall decline in the value of airline assets since Mr Trump bought the Shuttle, he will be lucky to get more than about \$250m for it now," said Mr Edmund Greenstein, publisher of the Airline Monitor, an industry newsletter.

Mr Trump has said it is worth \$600m.

## Poor fishing results hamper performance at Tiger Oats

By Philip Gawith in Johannesburg

POOR RESULTS from fishing hampered the performance of Tiger Oats, a South African foods group and a member of the Barlow Rand stable, in the six months to March.

A fall in operating margins left pre-tax profit up only 3 per cent at R213.6m (US\$82.2m) on turnover up 17 per cent at R3.28bn.

Oceana, its fishing subsidiary, said tight trading conditions in the food industry, suffered badly from a severe reduction in the anchovy quota, poor catches of pelagic and rock lobster, and lower volumes and margins in the trading divisions. Fishing's contribution to group attributable earnings was down to R4.5m from R11.4m.

The food division performed

solidly, with the attributable earnings contribution up 20 per cent to R96.6m. Adcock Ingram and Logos, the pharmaceuticals division, also performed well, raising its contribution 53 per cent to R19.6m.

The directors expect trading conditions to remain difficult in the six months ahead, but believe the current rate of increase in earnings will rise. Owing largely to a decline in earnings attributable to outside shareholders, earnings and dividends per share were up 13 per cent to 88.9 and 22 cents respectively.

Imperial Cold Storage and Supply (ICS), another member of the Barlow group, suffered from severe competition. Margins were slashed and pre-tax profits plummeted 59 per cent

to R20.43m over the same period.

Turnover rose 12 per cent to R1.05bn, but operating margins were cut to 2.18 per cent from 4 per cent. A 42.6 per cent rise in interest and a non-extraordinary item further knocked profits.

The poultry division suffered a loss because of oversupply, which dampened prices, and production interruptions during the commissioning of an upgraded processing plant. The red meat division also experienced lower margins, but the dairying and distribution divisions performed satisfactorily.

Earnings per share were 30 per cent down at 68.5 cents and the dividend was cut 22 per cent to 14 cents.

## Bids in for Leigh Instruments

By Robert Gibbens in Montreal

SEVERAL bids have been received for the bankrupt Leigh Instruments, of Ottawa, says the trustee, Peat Marwick Thorne.

More than 35 Canadian and international companies paid C\$10,000 (US\$6,521) deposits for Leigh's financial statements and list of contracts.

One of its few profitable subsidiaries is Micronav, a Nova Scotia maker of airport landing systems, which continued in operation with a large federal contract.

Peat Marwick said offers were received for all or parts of the hi-tech group. Results of

the bidding will be disclosed during the next week.

Leigh was bought by Plessey in 1988 after a takeover fight with a Canadian company. Plessey was later absorbed by General Electric Company of the UK in conjunction with Siemens of West Germany. GEC also owns Canadian Marconi, a larger avionics and defence communications equipment builder.

Leigh decided bankruptcy in April, with debts around C\$10m, and laid off 700 employees.

CAE Industries of Canada is still suffering from problems

with its US Link military flight simulator and training division acquired in 1988 from Singer Co for C\$65m (US\$47.5m).

Link losses, plus accounting changes in Canada, lowered CAE's earnings for the year ended March 31 to C\$2.7m, or 3 cents a share from C\$42.8m or 55 cents on revenue up 23 per cent at C\$1.7bn.

CAE, for many years the world's leading commercial flight simulator builder, has had to reduce the Link workforce by 16 per cent, merge units and inject new technology.

## Ricoh up 4.5% on strong sales

By Ian Rodger in Tokyo

PRE-TAX profits of Ricoh, a leading Japanese maker of copiers and office automation equipment, rose 4.1 per cent to ¥33.11bn (\$218m) in the year to March.

The company, which recently appointed a former Ministry of International Trade and Industry (MITI) official as managing director, showed a profit of ¥31.95bn the previous year.

Sales for the year rose 8.9 per cent to hit a record high of ¥666.4bn from ¥602.7bn, boosted by corporate capital spending and brisk personal consumption. The export ratio

was 51.6 per cent. Sales of copiers were particularly strong, rising 13.4 per cent to ¥31.25bn. Information equipment sales rose 3.1 per cent to ¥184.3bn, and sales of paper and other supplies went up 2.3 per cent to ¥88.1bn.

The company's overall good performance was due partly to its investment of surplus funds to boost its non-operating profit, to offset increased costs caused by poor performances in overseas facsimile machine production. Operating profits rose 0.2 per cent to ¥24.37bn, and net income dipped to ¥17.56bn from ¥18.94bn.

Ricoh targets pre-tax profits of ¥34bn for the current year. It plans to boost capital spending to ¥45bn from ¥36bn, some of which is earmarked for the construction of a technology development centre in Tokyo.

Olympus Optical, a maker of cameras and other optical equipment, showed pre-tax profits of ¥14.04bn in the year to March, up from ¥9.74bn. Sales were ¥157.4bn against ¥139.2bn. Our Financial Staff writes.

## Oil producers edgy at Alberta tarsands

By Robert Gibbens in Montreal

MANY large oil companies are suddenly seeking to pull out of the famous Alberta tarsands. They are nervous about the Edmonton, with a combined output of about 230,000 barrels daily of synthetic crude.

The smaller unit, with capacity of about 60,000 barrels daily, is owned by Suncor, the Canadian arm of the US Sun Oil, and Suncor says it wants to sell the plant.

The plant was brought on stream in 1965 using a steam process developed in the 1920s to separate the bitumen from the sand.

The Suncor plant, child of the 1974 world energy crisis, followed a similar process. However, the two separate circuits were built so that an accident or fire would not close

down the whole operation. Suncor started up at 125,000 barrels daily in 1978. It has been expanded to 160,000 barrels daily capacity and the total investment is well over C\$3m (US\$2.6bn).

The Alsands project, of the same scope and with a price tag of \$3bn, was shelved in 1981 after the second energy crisis. The federal government decided the price was excessive. In all, the Alberta tarsands are estimated to hold 300bn barrels of recoverable oil at around present prices.

Several of Suncor's nine owners, including PetroCanada, Amoco Canada, Enor Energy, Gulf Canada, Canadian Occidental and the Alberta Government, have given notice they want to sell their Suncor interest.

The companies in most cases have heavy debt loads and are restructuring their operations. The reason for an Alberta Government bail-out is less obvious.

The flight from Suncor will delay a C\$4bn expansion of capacity to more than 200,000 barrels daily indefinitely, say analysts. Already the Federal government has withdrawn its financial backing from the C\$4bn Osio tarsands project in the same area.

If the flight succeeds, the largest remaining stockholder would be Imperial Oil with 25 per cent, and it is now digesting the C\$5bn takeover of Texaco Canada. The second largest would be PanCanadian Petroleum, the energy arm of Canadian Pacific with 10 per cent, and a handful of others to make up about 60 per cent overall.

Mr Wilfrid Gobert, a well known Calgary analyst, says most oil companies may well have concluded that tarsands production is too risky in the present climate. They may also be saying that more tax concessions may be needed if tarsands production is to represent a government target of

around 10 per cent of total Canadian demand.

Suncor is now operating at 200,000 barrels daily after recovering from a fire in December. The process uses high temperatures and fires are common in both plants.

Suncor plans to reach an average daily output of 160,000 barrels for all 1990. At current prices in the C\$20 range, it says it is profitable and can show a positive return for its partners.

The synthetic crude is piped to Edmonton and refined there by Imperial Oil.

This company, the country's largest integrated oil and gas group, will in any case remain heavily committed to the Alberta tarsands.

Besides being the leader of Suncor, Imperial is also the major shareholder in the Osio plant. For Imperial, the crux is the timing in relation to future oil prices, and it shows every sign of staying in for the long pull.

## Washington Bancorp seeks rescuer

By Alan Friedman in New York

WASHINGTON BANCORP, the small and troubled bank that last week became the first commercial bank holding company in recent US history to default on its commercial paper obligations, yesterday said it was seeking a financial rescue from "substantial private investors."

The Washington DC bank, whose 18 National Bank of Washington branches are a familiar sight in the nation's capital, defaulted last week on \$26.8m of its \$36.7m of unse-

cured commercial paper because some lines of credit were cut off by other banks.

The bank, hit hard by loan problems associated with the spreading real estate sector recession, reported \$5.7m of losses in the first quarter of this year and non-performing loans of \$101.5m, representing 4.6 per cent of its total loanbook.

Although small - its assets are only \$1.5bn - the Washington Bancorp episode may be

indicative of what might happen at other minor and medium-sized commercial banks if the real estate slump persuades money centre banks to cut back on interbank lines.

Yesterday, in spite of Washington Bancorp's assurances that its discussions with prospective investors were "active and intense," the bank's shares, quoted on the over-the-counter Nasdaq market, were marked % of a point lower, to 44%.

## Volskas profit up 24 per cent to R174.3m

By Philip Gawith

VOLSKAS, South Africa's fourth largest bank, increased pre-tax profit 24 per cent to R174.3m (\$65.3m) in the year to March despite tight margins and increased provision for bad debts.

The increase in profits was due mainly to a 30.6 per cent increase in advances to R13.98bn, a rate considerably above that of other major banks which have reported recently.

This follows a concerted marketing campaign aimed especially at attracting young customers.

In line with competitors, provision for bad debts was increased by 22.7 per cent to take account of the casualties of prevailing high interest rates. Earnings per share were 26 per cent up at 270 cents and dividends 15.4 per cent up at 90 cents.

## BAHAMAS

The Financial Times proposes to publish this survey on:

10 July 1990

For a full editorial synopsis and advertisement details, please contact:

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on 071-873 3447

or write to him at:

Number One  
Southwark Bridge  
London  
SE1 9HL

FINANCIAL TIMES  
LONDON'S BUSINESS NEWSPAPER

## U.S. \$200,000,000



Exterior International Limited

(Incorporated with limited liability in the Cayman Islands)

Guaranteed Floating Rate Notes due 2001

Unconditionally Guaranteed as to payment of principal and interest by

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(Incorporated with limited liability in the Kingdom of Spain)

Notice is hereby given that for the six months interest period from May 15, 1990 to November 15, 1990 the Notes will carry an interest rate of 8% per annum. The interest payable on the relevant interest payment date, November 15, 1990 will be U.S. \$437.84 per U.S. \$10,000 principal amount of Notes.

By: The Chase Manhattan Bank, N.A.  
London, Agent Bank



May 15, 1990

## The Premier Group

PROFIT AND DIVIDEND ANNOUNCEMENT  
for the year ended 31 March 1990

Increase in earnings	32%
Increase in earnings per share	24%

1990 Rm	HIGHLIGHTS	1989 Rm
4341.8	Turnover	4150.3
260.2	Profit before tax	207.9
183.7	Profit after tax	149.5
2380.1	Total assets	2096.3
cents		cents
180	Earnings per share	145
60	Dividend per share	*50

\*on pro-forma basis

The results have been restated to reflect the successful completion of the Group's restructuring involving the divestment to Beverage and Consumer Industry Holdings Limited of the Group's 33.8% interest in The South African Breweries Limited. Pre-tax profits, which increased by 25%, are particularly pleasing having regard to the overall state of the economy. Continuing growth is expected in the 1991 financial year.

Copies of the full profit and dividend announcement have been posted to shareholders today and further copies are available from the Secretaries, Harcourt Brothers Limited, 59 Bishopsgate, London EC2M 3SE, England. Telephone: (071) 580-7011

The Premier Group Limited Registration number 01/04513/06  
(Incorporated in the Republic of South Africa)

Directors: P G A Whitlock (Chairman), D Gordon (Joint Deputy Chairman), M B Hofmeyr (Deputy Chairman), A H Bloem, V G Ray, W F Coetzee, W J de Kock, H P de Villiers, R B Fowler, R G Goolbsy, D M MacGillivray, L M MacLennan, C J Sauer (Chairman), G M Uiten, D C Roushdy (Chairman), W van der Klok (Chairman)

## STEFANEL S.p.A.

Capital Stock: Lire 71,500 million fully-paid.  
Registered Offices: Via Postumia 25, Ponte di Piave  
(Treviso), Italy  
Treviso Company Register No. 15578  
Tax Code: 01413340251

## PAYMENT OF DIVIDEND

At the Annual General Meeting of Stefanel S.p.A., held on April 30, 1990, the Stockholders authorized the payment of a dividend for 1989 of Lire 130 per share, gross of withholding taxes.

This dividend may be collected on or after May 17, 1990, on presentation of coupon no. 4 at the registered offices of the Company, or at one of the financial institutions listed below: Banca Commerciale Italiana, Credito Italiano, Banco di Roma, Banco Ambrosiano Veneto, Banca Popolare Veneta, Cassamarca, Banca Popolare di Asolo e Montebelluna, Istituto Bancario S. Paolo di Torino, Banca Popolare di Verona, Cassa di Risparmio di Udine e Pordenone, Banca Popolare Friuladria, Banca Nazionale del Lavoro, Banco di Napoli, Monte dei Paschi di Siena, Banco di Sicilia, Banca Antoniana di Padova e Trieste, Banca di Trento e Bolzano or Monte Titoli S.p.A. (for the shares it administers).

## CONSOLIDATED FINANCIAL STATEMENTS

The 1989 consolidated financial statements of the Stefanel Group were also presented at the Annual General Meeting. In compliance with Italian Stock Exchange requirements, these statements are freely available on application to the registered offices of the Company. They have also been deposited at each Italian Stock Exchange.

GIUSEPPE STEFANEL  
Chairman of the Board







## INTERNATIONAL CAPITAL MARKETS

## Cash bond prices fall on W German election result

By Deborah Haigroaves in London and Karen Zagor in New York

THE WEST German bond market suffered a setback yesterday when cash bond prices dropped by as much as 65 pfennigs following Mr Helmut Kohl's victory in the West German election, losing control of the Bundestag - upper house - in Sunday's local elections.

As German bond traders take another look at the costs of the unification of Germany, some are beginning to think that last week's rally in prices may have been unfounded.

The yield on 10-year bonds rose to 8.57 per cent yesterday and analysts believe there is little justification for them going below 8.50 per cent.

The prospect of new supply continues to hang over the market and it is made even more imminent by a manifesto for the SPD - socialist party - in the upper house.

Bund traders believe the Government could be forced to issue a new bond each month.

until the end of the year to fund unification since the SPD will be reluctant to pass significant finance bills.

The SPD is expected to want to slow down the process of unification and its control of the Bundestag has probably precipitated the need for permanent elections.

The rise in the producer price index which was released in West Germany yesterday - showing a 0.5 per cent increase for April - was higher than the market's expectations.

However, the near-term outlook for inflation is not as much concern as the long-term inflationary impact of unification.

## GOVERNMENT BONDS

IT WAS a volatile day for UK gilts yesterday as the market was dominated by rumours of a possible change in the Chancellor's position.

Analysts were perplexed to explain the market's firmness in the face of unfavourable retail sales and producer price figures.

When the producer price index was released showing a 0.5 per cent increase for April,

the long bond was up 1/8 point at 101.32, yielding 8.55 per cent. After gaining 1/8 point on Friday, gains were less pronounced at the short end of the yield curve, where the two-year issue was up 1/8 point to 101.32, yielding 8.55 per cent.

The Federal Reserve arranged three-day system repurchase agreements with Fed funds, the rate at which banks lend to each other, were changing hands at 3/4 per cent. The funds ended the day at 3/4 per cent.

Although the dollar held steady at midday yesterday in New York, at Y152.45 and DML84.25, it failed to recover its Friday's losses when it dropped from the Y155 level after the bond market surge.

The latest improvement in bond prices came in the absence of any significant economic news. The release of US business inventories for March, which were unchanged at a seasonally adjusted \$79.4bn, failed to move the market since the figures were in line with market expectations.

The next important economic indicator is April's consumer price index, which is due for release tomorrow.

Analysts expect the index to track the modest inflationary trend, which was seen in the producer price reports on Friday and triggered the bond and stock market rallies. The consumer price index for April is projected to rise by 0.3 per cent, both on an overall basis and excluding food and energy prices.

In late trading in New York,

## Belgium to automate government bond trades

By Tim Dickson in Brussels

THE MARKET in Belgian Government bonds will receive a fillip on Friday when deals in a dozen issues are to be automated for the first time.

Adding bonds to the Computer Assisted Trading System (Cats) of the Brussels Stock Exchange - details of which were announced yesterday - is seen as an important step in Belgium's plan to breathe new life into its financial markets in the run up to 1992.

Despite initial complaints from outside users the view in Brussels is that since its launch at the end of 1988 Cats has improved the transparency and liquidity of the secondary market in equities. The hope is that the same benefits will now flow from adding bonds to the system, and that the development will usefully prepare the ground for the future market to be set up in Brussels by 1992.

Obi-Cats, as the new service announced yesterday is known, will consist of two types of bond: those that are continuously traded between 9.15 am and 4 pm, and those that are fixed at 12.30 pm - after a pre-opening starting at 9.15 am. The idea is that about 30 of the most liquid bonds, notably those of the state and the Brussels Region, will join the continuous market. Deals here will be restricted to minimum amounts of Bfr5m.

The fixing market, by contrast, is aimed more at smaller investors and will be regulated by the Fonds des Rentes, a part of the National Bank. All the 100 or so government bonds should ultimately be tradable in multiples of as little as Bfr1,000.

The Brussels House also chose yesterday to unveil details of Bourse Data Participations (BDP), designed to give subscribers "real time" information on shareholdings in quoted Belgian companies. Law now requires shareholders with a stake of more than 5 per cent to declare themselves both to the company in which they have their investment, and to the Belgian Banking Commission.

Investors grabbed at what

## US Treasuries' rally revives \$ sector

By Andrew Freeman

THE DOLLAR sector of the Eurobond market saw active new issuance yesterday, with \$1.2bn of paper launched following the strong rally of US bonds late last week.

Deutsche Bank Capital Markets launched the expected \$800m five-year issue for International Finance Corporation as a fixed-price reoffer deal. The bonds were offered at 98.65 with a 9 1/4 per cent coupon to yield 48 basis points over Treasuries, after price indications of 47 to 49 basis points.

The issue followed an extensive investor road show by the IFC which wanted to establish a liquid benchmark at a spread appropriate to its credit rating. DBCM kept tight control over the syndicate and said European members had found steady interest from the start.

An official said the bank had experienced good demand for its own allocation of around \$240m. Some co-managers said the pricing looked aggressive.

## INTERNATIONAL BONDS

and that initial placement was slow, but praised DBCM's handling of the deal. A small rally in the underlying Treasury market helped the issue, and towards the close DBCM was quoting the paper at 98.70 bid.

Proceeds were swapped into floating-rate dollars.

The best reaction went to a \$150m seven-year issue for Japan Development Bank, brought by LTCB International.

Investors grabbed at what

## NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book number
US DOLLARS						
Int. Finance Corp.(IFC) (a)	800	9 1/4	98.65	1995	25bp	Deutsche Bank Cap. Mkts
Swedish Nat'l Housing Fin.(a)	300	8 1/2	101 1/2	1995	1 1/2/1 1/2	Nomura Int.
Ford Credit(a)(b)(c)	250	8 1/2	100.00	1997	1 1/2/1 1/2	CSFB
Alcoa Finance(a)(b)	200	8 1/2	99.95	2000	10/5bp	Credit Lyonnais
Japan Development Bank(a)	150	8 1/4	101.70	1997	1 1/2/1 1/2	LTCB Int.
Cellulose Int.(a)(b)	40	8 1/2	100	2000	1 1/2/1 1/2	Kidder Peabody Int.
LIBOR						
Procter & Gamble(a)(b)	125bn	13	101.80	1993	1 1/2/1	San Paolo Bank
DAIWA						
Nat'l Housing Fin.(a)(b)	300	8 1/2	100	1997	25/12/5bp	CSFB-Efficientbank
Octobank(a)(b)	200	7 1/2	100.30	2000	20/10bp	DG Bank
SWISS FRANKS						
Calsonic Nat'l Telecom.(a)(b)	200	7 1/2	101 1/4	2000	2 1/2	Credit Suisse
AUSTRALIAN DOLLARS						
Nat'l Housing Fin.(a)(b)	25	15 1/2	101 1/4	1993	1 1/2/1	Nat'l West Capital Markets

(a) Floating rate notes. (b) Convertible. (c) Final terms. (d) Non-callable. (e) 1/2 over 6-month Libor. Put and call after five years at 100. (f) Call after eight years at 102 declining 1% p.a. (g) Coupon pays 1/2 over 6-month Libor. Call at par June 1995 and on coupon dates thereafter. Fixed re-offer price. (h) Amount \$40m reduced from original amount of \$50m. Conversion price \$14.25. (i) Coupon pays 1/2 under 3-month Libor. Call after five years at 100. (j) Fungible with A\$50m bond launched March 1990. Issue price plus accrued interest. (k) Fixed re-offer price.

they saw as quality paper despite broad agreement among underwriters that the pricing was in line with other Japanese government-guaranteed borrowings. The bonds were quoted very comfortably inside fees at less 1.40 bid, implying a spread of around 53 basis points. Proceeds were swapped into yen.

Ford Capital also tapped the seven-year maturity range with a \$250m issue via Credit Suisse First Boston. The bonds were priced at 101.65 and were re-offered to investors at 100.05 to yield 52 basis points over Treasuries.

Syndicate members said there was limited institutional demand for the paper, but reported steady Swiss retail interest. When the syndicate was broken towards the close of trading, CSFB was quoting the bonds at 99.90 bid.

Later in the day, Nomura brought a \$300m five-year issue

for SBAR, the Swedish housing finance institution. The bonds were attractively priced to yield 74.4 basis points over Treasuries, and Nomura reported a steady early response, quoting the paper around full fees at less 1.55 bid. It was thought that the proceeds were swapped into fixed-rate Kroner.

In Germany, a DM300m floating-rate note for New Zealand was launched by CSFB-Efficientbank to a slow reception. After the recent spate of FRNs, traders reported some indecision and said the new paper was correctly priced at 1/2 under three-month Libor. CSFB was quoting the paper at 99.65 bid, a discount outside co-managers' fees and equivalent to full underwriting and listing fees.

A DM400m FRN for Octobank launched late in the day by DGB Bank had a similarly restrained start.

In Switzerland, despite a

quiet primary market, a Sfr200m 10-year deal for Calsonic Nationale des Telecommunications met strong demand. Credit Suisse, the lead manager, said it had sold nearly all its paper and the bonds were trading around less 1 1/2 bid, with inside full fees of 2 1/2 per cent.

San Paolo Bank was the lead manager of a successful L125bn deal for Procter & Gamble, the company's first Eurobond issue. Amid wide European demand, mainly from Switzerland, Austria and the Benelux countries, the bonds were trading at less 1.20 bid, against full fees of 1 1/2 per cent.

Goldman Sachs is launching a \$50m closed-end investment fund, the New Asia Fund Ltd, with the objective of long-term capital growth via equity investment in Asian countries. The investment adviser is Aberdeen Fund Managers.

## Crédit Lyonnais aims for Belgian savings

By Tim Dickson

CREDIT LYONNAIS Belgium, a subsidiary of the leading French banking group, yesterday made an aggressive pitch for a slice of the Belgian savings market with the launch of a new investment product.

Mr Eugene Teyssie, managing director of the bank, said that the move was prompted by the "unexpected speed with which the single European market is approaching" and claimed new competition in

retail banking could have big macro economic implications for the country.

He explained the recent reduction in the rate of withholding tax on bond and bank interest from 35 to 10 per cent had been a big factor in the Crédit Lyonnais decision.

"What this has done is to reduce the fiscal incentive for consumers to stay in traditional passbook accounts, which are exempted from withholding tax. We estimate that

the financial industry has been paying about 5.2 per cent, which now only grosses up to around 6 per cent."

Crédit Lyonnais, on the other hand, is offering 9 per cent gross (8.1 per cent net) on deposits of more than Bfr2,500.00. Similarly competitive offers are already available from small banks in Belgium but Mr Teyssie says that what makes yesterday's announcement special is the Crédit Lyonnais name and the

fact that it has a sensible distribution network in the country with 30 branches and 80 independent agents.

Crédit Lyonnais says that there is Bfr2,500m tied up in passbooks, accounts and Bfr2,500m in certificates of deposit. The bank yesterday also announced increases for one-, two-, three- and five-year certificates of deposit which take the rates in each case roughly half a percentage point above typical market levels.

## LONDON MARKET STATISTICS

## FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS									
Monday May 14 1990									
Index No.	Day's Change %	Est. Yield % (Mac.)	Est. Div. Yield % (Mac.)	Est. Div. Yield % (Mac.)	Est. Div. Yield % (Mac.)	Est. Div. Yield % (Mac.)	Est. Div. Yield % (Mac.)	Est. Div. Yield % (Mac.)	Est. Div. Yield % (Mac.)
1 CAPITAL GROUPS (199)	336.48	+0.10	13.90	5.42	15.78	827.36	804.27	972.87	
2 Banking & Finance (127)	330.22	+0.07	13.90	5.42	15.78	827.36	804.27	972.87	
3 Contracting, Construction (36)	1301.22	+0.07	18.64	6.31	7.01	33.20	1291.69	1291.69	
4 Electronics (10)	2414.69	+0.04	11.78	5.10	10.44	61.43	2404.93	2353.14	
5 Engineering-Aerospace (5)	1809.15	+0.04	10.64	4.10	12.89	19.33	1789.01	1747.88	
6 Engineering-General (63)	457.39	+0.04	14.62	6.16	12.46	42.31	452.16	442.16	
7 Engineering-Mechanical (43)	457.39	+0.04	14.62	6.16	12.46	42.31	452.16	442.16	
8 Metals and Metal Forming (5)	482.22	+0.04	24.36	6.46	4.63	0.53	476.47	476.47	
9 Motors (16)	331.04	+0.09	16.70	6.81	6.99	9.56	326.34	326.34	
10 Other Industrial Materials (24)	2520.35	+0.02	11.66	3.24	9.31	35.09	2485.26	2485.26	
11 Consumer Goods (178)	1212.78	+0.13	9.81	4.07	12.16	22.96	1187.19	1187.19	
12 Breweries and Distillers (21)	1430.89	+0.18	9.96	3.85	12.19	12.62	1406.17	1397.89	
13 Food Manufacturing (220)	1052.80	+0.13	10.64	4.47	11.65	16.98	1035.36	1028.26	
14 Food Retailing (16)	2228.17	+0.16	9.66	3.49	13.95	22.97	2205.21	2205.21	
15 Health and Household (14)	2541.74	+0.18	6.80	2.34	11.52	20.36	2491.51	2491.51	
16 Luggage (32)	1346.97	+0.17	10.71	4.43	11.39	18.28	1328.72	1317.17	
17 Packaging & Paper (12)	3622.29	+0.04	13.04	6.09	9.80	11.83	3587.74	3553.15	
18 Publishing & Printing (16)	3222.19	+0.07	10.39	5.36	12.13	50.81	3201.47	3168.42	
19 Stores (13)	257.77	+0.13	12.12	5.12	10.84	7.88	257.77	257.77	
20 Textiles (13)	1410.80	+0.18	7.84	8.51	13.26	46.13	1364.67	1364.67	
21 OTHER GROUPS (145)	1105.51	+0.14	11.49	5.18	10.32	10.78	1084.79	1084.79	
22 Agencies (17)	1546.33	+0.17	6.46	2.35	18.70	14.99	1535.70	1535.70	
23 Chemicals (23)	1206.39	+0.14	11.85	3.47	9.87	28.52	1189.33	1171.07	
24 Conglomerates (14)	1745.59	+0.10	10.13	6.26	11.61	14.41	1731.34	1731.34	
25 Consumer Services (12)	2141.42	+0.07	11.14	4.60	11.63	26.91	2104.60	2104.60	
26 Telephone Networks (2)	1882.99	+0.11	11.72	4.73	11.09	0.00	1878.83	1878.83	
27 Water (10)	1886.96	+0.11	18.47	7.18	6.00	0.00	1867.20	1859.59	
28 Miscellaneous (26)	1644.04	+0.16	12.26	5.00	9.31	18.80	1624.17	1624.17	
29 INDUSTRIAL GROUP (482)	1097.41	+0.13	11.34	4.75	10.74	13.32	1083.79	1074.34	
30 Oil & Gas (18)	2256.74	+0.12	12.01	5.39	18.99	46.43	2210.02	2210.02	
31 FINANCIAL GROUP (549)	1193.03	+0.13	11.44	4.84	10.77	15.92	1176.37	1166.01	
32 FINANCIAL GROUP (110)	763.39	+0.15	11.44	4.84	10.77	15.92	747.40	739.54	
33 Banks (9)	816.19	+0.20	20.20	6.39	6.48	25.62	800.48	801.71	
34 Insurance (116) (7)	1312.81	+0.10	5.99	5.99	36.94	1275.15	1266.24	1266.24	
35 Insurance (Composite) (7)	438.92	+0.17	6.47	6.47	10.43	626.25	626.25	626.25	
36 Insurance (Life) (7)	1075.51	+0.18	8.04	6.05	16.38	27.41	1068.85	1068.85	
37 Merchant Banks (7)	414.80	+0.15	6.40	6.40	11.61	4.88	412.02	412.02	
38 Property (48)	1062.59	+0.11	8.34	4.23	15.27	0.35	1047.19	1047.19	
39 Other Financial (25)	297.25	+0.15	14.99	7.51	8.74	4.54	292.70	292.74	
40 Investment Trusts (67)	1165.16	+0.14	3.29	3.29	10.73	1149.12	1139.70	1147.97	
41 Overseas Traders (5)	1287.48	+0.13	9.58	7.09	12.79	42.87	1244.62	1244.62	
42 ALL-SHARE INDEX (682)	1097.89	+0.15	4.97	4.97	16.34	1074.94	1066.78	1105.75	
FT-SE 100 SHARE INDEX	2214.51	+0.16	2214.51	2214.51	2173.91	2162.77	2162.01	2162.22	2161.9

FT-SE 100 SHARE INDEX

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## UK COMPANY NEWS

Two marketing services companies avoid the sector's downturn

## Holmes &amp; Marchant rises to £3.6m

By Alice Rawsthorn

HOLMES & MARCHANT, the design and sales promotion group, has emerged unscathed from the downturn in the marketing services sector by increasing pre-tax profits by 14 per cent to £3.6m in the six months to March 31.

Mr John Holmes, chairman and chief executive, said most areas of activity had not been affected by the downturn. The only exception, he said, was sales promotion where the pattern of trading had been "rather volatile".

Turnover was up just 3 per cent to £30.7m (£29.71m)

reflecting Holmes' policy of concentrating on consultancy work, rather than on *ad hoc* projects. Operating profits advanced to £4.2m (£3.56m).

The design division, which is the biggest single area of activity accounting for 50 per cent of turnover, achieved a 20 per cent increase in profits.

Holmes has sold its small interior design company which specialised in retail design, one of the weakest areas of the design market to the management. Mr Holmes said the packaging and corporate design consultancies

had performed well. Similarly the advertising and public relations businesses had been unaffected by general cuts in marketing budgets. Holmes' advertising agency specialises in food retailing, where expenditure has remained relatively resilient.

The sales promotion side represents 25 per cent of turnover. Mr Holmes said the market had become more competitive and, although short-term projects were going ahead as usual, clients were more cautious about sanctioning longer-term programmes.

Holmes paid £554,000 (£359,000) in interest on borrowings, which now stand at £10m. The main reason for the rise in debt is that the group now makes most of its earnings, or deferred payments on acquisitions, in cash rather than shares. Holmes has paid £5.4m in earn-outs this year and expects to pay another £8m over the next three years.

Earnings per share rose to 13.7p (12.7p) and the interim dividend is lifted to 4.3p (3p). Holmes' share price rose 9p to 173p on yesterday's announcement.

## Lep expands into East Germany

By Andrew Hill

LEP GROUP is to expand its freight forwarding and distribution business into East Germany through a joint venture between one of its West German subsidiaries and Deutsches, the state-owned transport operation.

Lep-Lassen, will have its head office in Berlin and offices in 17 other East German cities. Lep is to inject DM200,000 (£105,000) cash for a 60 per cent stake with the balance held by Deutsches.

Mr John Leach, Lep's managing director, said that Lassen, the UK group's West German freight forwarding business, would extend its technological expertise and computer network into East Germany.

"We employ about 1,200 people within Lassen at the moment and we look at it really as a way of extending our German operations to 1,600 people overnight, rather than jumping on the East German bandwagon," he said.

Lep, which also owns a West German distribution subsidiary, Wohlfarth, already has sales delegations active in other east European countries and the Soviet Union.

## Character Hotels sale could raise up to £100m for Mecca

By David Churchill, Leisure Industries Correspondent

MECCA LEISURE announced yesterday it is to sell its 16-strong Character Hotels division as part of its present strategy of disposing of assets to reduce gearing.

Mecca hopes to raise between £70m and £100m from the sale and is confident of achieving a firm price in spite of the glut of hotels at present on offer in the UK.

"They are not just 'bed-factories' but individual hotels reflecting an attractive historical property," said Mr Ian Baker, executive director.

A total of 814 hotel rooms in the UK together with a 100-room hotel in Ostend are included in the package.

Most of the hotels are sited in rural locations on the edge of built-up areas in the Midlands and north west of England.

Mecca is seeking initial offers, through its advisers Samuel Montagu, by June 8 and companies short-listed will be required to submit final offers by June 22.

Mecca last month sold one of its Character Hotels - the 18th century Royal Hotel in Kettering, Northamptonshire - to Ferquhar Hotels, the embryonic hotel group being developed by three former Holiday Inn senior executives.

Trade sources suggested that

Mecca's Character Hotels now on sale would form an attractive group for a potential buyer because of their location.

British hotels have been changing hands rapidly in recent weeks, suggesting that the market has improved sharply.

Last month Mr John Jarvis, former chief executive of Hilton International Hotels, bought the 45-strong Embassy chain from Allied-Lyons for £202m. Vaux Breweries also recently sold six hotels for £11m.

Still in play, however, is believed to be Bass's Crest hotel chain, for which Trusthouse Forte has reportedly been interested.

One potential bidder for the Mecca hotels could be Mr Peter Tyrie, former managing director of the Mandarin Oriental hotel group and now chief

executive of Bahmoral Hotels. Mr Tyrie and his colleagues last month failed to gain control of Norfolk Capital, which eventually was sold to Queens Moat Houses.

Mecca's need to sell its Character Hotels group follows the disastrous City reaction to its financial results at the beginning of April.

Mecca had failed to reduce its gearing following the £750m acquisition of Pleasurama in late-1988 by selling off assets, although it was successful in combining the Pleasurama management into the Mecca operations.

Mecca's pre-tax profits of £91.1m were way below market forecasts because of the cost of servicing the Pleasurama deal. This led to a substantial down-rating of Mecca's shares and a knock-on effect on the leisure sector as a whole.

## TMD bucks trend with 58% improvement

TMD ADVERTISING, the largest independent media-buying business in the UK, yesterday dispelled some of the gloom that has descended on the marketing services sector by announcing a 58 per cent increase in pre-tax profits from £1.1m to £1.74m in its first half to February 28 1990, writes Alice Rawsthorn.

In recent months the mood of the advertising industry has become increasingly gloomy as the combination of high interest rates and the slowdown in consumer spending has forced companies to prune their mar-

keting budgets. Some of the publicly quoted advertising agencies have already announced reductions in profits and, in some cases, losses. USM-quoted TMD - in which Aegis, the European media buying group, holds a 39.9 per cent stake - has managed to increase profits in spite of the sluggish state of the industry.

Nonetheless, its share price yesterday fell by 8p to 230p.

Mr Roger Powley, finance director, said the group had suffered because some of its longstanding clients had

reduced budgets or postponed campaigns. But, he said, it had won enough new business to compensate for the shortfall on existing accounts.

TMD also benefited from the contribution of recent acquisitions, including Harrison Salomon, the specialist outdoor advertising consultancy. However it made a small loss on Michael Jarvis & Partners, a company specialising in international media.

Turnover rose to £94.45m (£66.15m). Earnings per share increased to 10.4p to 12.5p

and the interim dividend is raised to 1.8p (1.5p).

Mr Powley said TMD had continued to win new business since the end of the first half. It has already gained some accounts - including BSN, the French food group, and Givenchy perfumes - as a result of its association with Carat, the French media-buying business owned by Aegis.

TMD was "on course for a good year", he said, although the slowdown in the advertising industry was making the media-buying market more competitive.



SMITHKLINE BECKHAM, the Anglo-American pharmaceuticals and consumer goods company formed last July, had got off to a solid start. Mr Bob Beaman, chief executive, told shareholders at the company's first annual meeting in London yesterday, writes Peter Marsh.

Mr Beaman said SB hoped to cut costs and increase margins over the coming year as a result of efficiencies resulting from the combination of the salesforces from the two groups which merged to form the company.

SB resulted from a marriage between SmithKline Beckman of the US and the UK's Becham to form the world's second biggest drugs company, counting medicines sold both on prescription and over the counter. The combination was one of the first of a series of large mergers in the world's pharmaceuticals sector over the past year.



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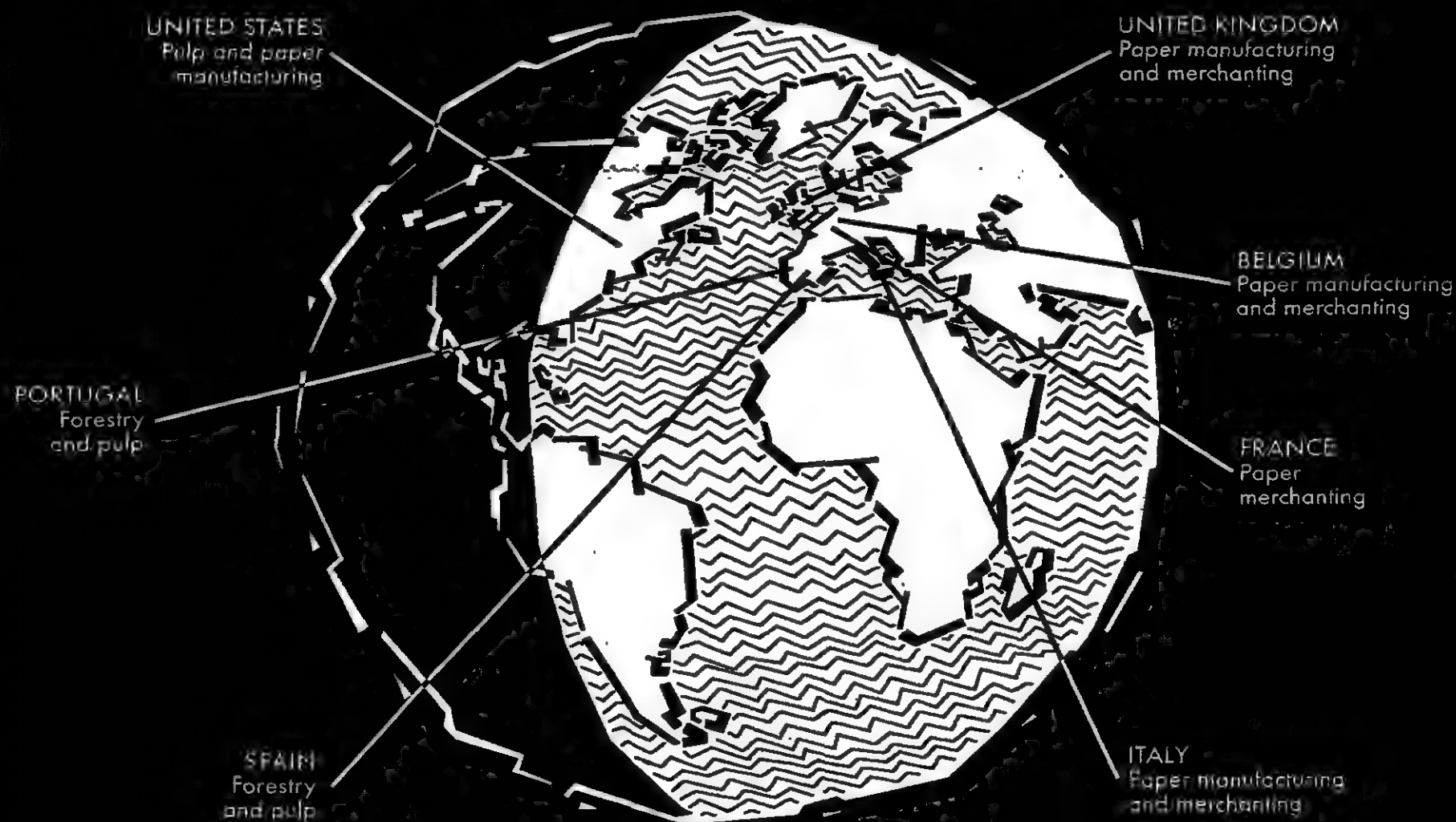
US\$100,000,000  
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May, 1990

## UK COMPANY NEWS

### Bell Fruit acquisition helps Kunick hit jackpot

By David Churchill, Leisure Industries Correspondent

KUNICK, the amusement machines and nursing homes group, announced pre-tax profits of £2.02m for the six months ended March 31, up from £3.34m last time. The driving force behind the outcome was the Bell Fruit amusement business, bought last August for £57m.

Trading profits from the UK amusement machine business, which operates some 42,000 machines, increased from £1.4m to £6m. Mr Russell Smith, chairman, said that the performance had been better than expected and came in spite of difficulties with the introduction of 20p stake machines in January, instead of the 10p maximum stake in operation for the past nine years.

The increased stake caused a certain amount of player resistance initially and the first machines introduced did not overcome this, he said.

Subsequent machines have, however, shown very good results and we expect a substantial benefit in profitability building up during the second half of this year with the full effect coming through next year.

About £1m extra profits were likely this year as a result of the higher stakes.

Amiro, the amusement machines business in France, also saw an increase in trading profits, from £750,000 to £1m. The company had a dominant market position and was performing strongly, Mr Smith said. He saw substantial opportunities for development in France.

The nursing homes achieved trading profit of about £1m (£750,000).

Acquisitions helped increase the number of beds offered at the top end of the market from 463 to 740 and more beds will be added in the current half.

Among the company's other activities, the London and York Dungeons reported record daily attendances on Good Friday. The leisure operation will receive a boost in the second half from the opening of a similar operation in Paris next month.

There was an extraordinary charge of £220,000 being the cost of moving from the USM to the full market in March.

Turnover was £50.69m (£25.43m). Earnings per share came out at 2.34p (1.92p) basic or 2.38p (1.90p) fully diluted. The interim dividend is raised from 0.5p to 0.6p.

**COMMENT**  
Given the present uncertain-

ties in the leisure sector, Kunick's results came as a solid reminder that not all is gloom and doom in this area. The company's novel strategy of using cash generated from amusement machine gambling to finance the expansion of nursing homes for the wealthy has many admirers in the City.

Yesterday's figures were as solid as expected, the shares closing 2p higher at 58½p, although with rather more than expected coming from the amusement machine business post the Bell acquisition and less from the nursing homes.

In the short term this is no bad thing, given the cash generating nature of the slot-machine operations, and the full impact of the doubling of the stake money earlier this year will clearly be felt in the second half. The drive in the second half will come from further expansion into nursing homes, a move which may push Kunick's gearing above 60 per cent and make some brokers slightly nervous in the present market conditions. But with the shares standing on a prospective p/e of about 9.5 on full-year expectations of £21m pre-tax, the defensive nature of the businesses and the quality of their management continues to win support.



Alan Harper  
Mark & Spencer yesterday announced a 7 per cent increase in UK store sales in 1989-90, totalling £4.55m. That translated into volume growth of about 3 per cent, or - after taking into account additional selling space - "like for like" growth of about 1.5 per cent.

Divisionally, foods saw real growth of 2 per cent after price increases of some 5 per cent. Questioned about the series of recent food scares, Lord Rayner, chairman, said that the company had attempted to secure quality right back to the original sourcing of its supplies. "People have got to eat," he pointed out. "If they don't eat beef, they'll probably eat lamb."

On the clothing side, volume rose by some 5 per cent, after price increases of some 3 per cent. The homeware side, however, suffered more significantly from the downturn in consumer spending: after price increases of some 8 per cent, there was a volume decrease of 4 per cent.

### Associated Energy incurs £0.68m loss for 14 months

ASSOCIATED Energy Services, where a new management moved in at the beginning of the year, recorded a loss before tax of £675,000 for the 14 months to November 30 1989.

In the previous 13 months this USM-quoted company with interests in building and environmental services and catering equipment reported a loss of £147,000.

The company also announced the purchase of TG Catering Systems.

In the period Howlett Group Services was in loss but was now returning to profits, the company said. Howlett-Hygiene Services, the other building and environmental company, was trading profitably.

Directors said the company was cash positive and was looking for acquisitions in cellular communications and property-based leisure activities.

Turnover was £2.94m (£2.55m) and the loss per share came out at 9.48p (1.63p). There was an extraordinary charge of £22,000 (£145,000 credit) relating to the disposal of Candyrite, acquired towards the end of 1988.

### Home Counties

Home Counties Newspapers has acquired Southern Converters, a maker and printer of customised envelopes, for an initial £3.5m cash and a deferred profit-related payment to a maximum of £2.45m.

### Polly Peck raises £142m in sale and leaseback deal

By Andrew Bolger

POLLY PECK International, the electronics and fresh produce group, has raised £142m in a sale and leaseback deal with a consortium of companies involving nine refrigerated cargo vessels.

Polly Peck acquired rights to the vessels last year as part of its purchase of the Del Monte fresh fruit operation, bought for £57m from BJR Nahsco, the US tobacco food group.

Mr David Pearce, finance director, said the deal would reduce Polly Peck's gearing

from 95 per cent at the end of 1988 to about 75 per cent.

Polly Peck will sell the vessels for cash to a consortium of companies led by Kvaerner, Høfslund Nycomed and an investment group put together by Norse Partners.

Payment for six ships will be on completion, to take place by June 30. The remaining three will be paid for on delivery.

The US tobacco food group, Polly Peck's wholly-owned subsidiary, will charter the nine vessels back for 10 years.

### T&N offer extended

T&N, the engineering components group, has extended its tender offer for JP Industries, from May 14 until June 22. This is to allow the companies to prepare information requested by the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act.

### NatWest purchase

National Westminster Bank has completed the purchase of Rabobank Nederland's 40 per cent holding in Van Lanschot's Beleggings Compagnie. This takes NatWest's stake to about 80 per cent.

### Nesco closures to cut losses

By Andrew Hill

NESCO Investments, the computer software and Nigerian electricity group, is taking drastic action to cut losses by closing subsidiary subsidiaries in France and the Netherlands.

The company said it would require "substantial further investment" to bring them back to a satisfactory level of profits. Nesco is also making arrangements to sell one of its original businesses, a Leicestershire motor dealership, "in the near future".

However, the company confirmed that its other operations - the UK computer systems supplier DCS Group, and its Danish subsidiary, and Nesco Nigeria, an electricity supplier - were producing record profits. In the 15 months to June 30 last year, Nesco lost £284,000, (£211,000 profit) and passed its final dividend.

### SI launches £2.3m rights

By Vanessa Houlder

SI Group, the engineering company controlled by the Abdullahi brothers, has announced a £2.3m rights issue and the acquisition of two companies involved in the construction industry.

It also announced a loss of £1.2m in 1989, compared with £900,000 in 1988, giving a loss per share of 4.1p. Turnover fell from £4.3m to £3.1m.

It is buying Phenixia, which markets heavy plant and machinery and provides consultancy services to the construction industry for £1.2m and Stamford Line, which operates a limestone quarry, for £1.2m.

The company is issuing new shares on a 3-for-11 basis at 12.5p each.

### New trust at EFM

Edinburgh Fund Managers is launching a new £14.4m investment trust via a private placement. EFM Java Trust will specialise in investment in Indonesia, with the aim of long-term capital growth. The initial capital is being raised via a placing of 30m shares at 50p each.

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It is the key to the Statue of Liberty in New York harbor, proudly holding a torch that lights the way to freedom. The colossal copper structure was designed by Frédéric-Auguste Bartholdi and engineered by Gustave Eiffel. A gift from France commemorating the U.S. centennial celebration in 1876, the statue was completed in Paris in 1884 and unveiled two years later in New York.

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Net rental income increased by 22% compared with the previous year and, because of the pattern of 5-yearly rent reviews, there are substantial increases still to come.

The net asset value per share increased by 17% during 1989 and over the past five years has increased from 87.5p to 270p.

£80 million of 10% Debenture Stock was issued in December and the Company has £39.5 million of interest rate swaps in place at an average interest rate of 10.9%.

The Company is fortunate that it has fixed its costs of borrowing so that not only are the profits protected against interest rate movements, but also the greater part of the current development programme."

### HIGHLIGHTS OF 1989

- ☐ 26.4% increase in profit before tax to £20,427,000
- ☐ 22% in net rental income to £35.7 million
- ☐ 17% increase in net assets to £460 million
- ☐ Proposed final dividend of 3.90p per ordinary share making an increase of 25.1% for the year
- ☐ Value of investment properties - £711 million

The Annual General Meeting of the Company will be held in London on 12th June 1990.

If you would like a copy of the Annual Report and Accounts 1989 complete this coupon and send it to The Secretary, Brixton Estate plc, 22-24 Ely Place, London EC1N 6TQ

Name \_\_\_\_\_

Address \_\_\_\_\_





## UK COMPANY NEWS

## Through a Waterford crystal glass darkly

Kieran Cooke looks into the future of the embattled Irish luxury goods company

**W**ATERFORD CRYSTAL is to the Republic of Ireland what Rolls-Royce is to the UK or Gucci to Italy.

It is the quintessential Irish gift when President Mikhail Gorbachev made a short visit to Ireland, he left with a 14-inch oval Waterford crystal bowl under his arm.

Visitors to this June's EC summit in Dublin will doubtless receive similar gifts. But there are now suggestions that the crystal maker may be moving its operations out of Ireland.

For the first time in the company's 40-year history, its factories in Waterford, 100 miles south of Dublin, have been closed by an all-out strike. "We are in a downward spiral, from which there may be no return," warned management in a recent letter to the workforce.

Indeed the management has hinted that if the dispute, which has just entered its seventh week, is not settled soon, production might be moved to eastern Europe, possibly to either Czechoslovakia or Poland.

If that happened it would be a body blow to Irish national honour. Mr Charles Haughey, the Irish Prime Minister, recently described Waterford crystal "as one of the finest products made by man anywhere in the world".

The immediate cause of the present industrial action was a management decision to withdraw certain bonus payments to a section of piece-rate workers. The management has appealed for talks but say the pay cuts must stay, while the trade union has accused management of breaking agreements and says no talks are possible until the management reinstates the payments.

It is a showdown which both sides agree has been building up for some time.

Waterford is the Irish half of the Waterford Wedgwood group. Waterford bought Wedgwood, the maker of high quality English chinaware, in 1986 for £250m. Since that time the performance of Waterford has been calamitous.

Last year, the crystal division reported pre-tax losses of £121.3m. In the last three years, losses have reached more than £500m.

Only continuing healthy profits from Wedgwood have kept Waterford afloat. Investors, meanwhile, have seen the value of their shares fall to about one-quarter of their 1986 level. Group debt, meanwhile, stood at £121.3m at the beginning of the year. Management says wage costs must be reduced if Waterford is to have any future in Ireland.

Two months ago a group of US investors led by Mr Tony O'Reilly, chief executive of Heinz, put together an £80m package to take a 30 per cent

stake in the Waterford Wedgwood group. The O'Reilly team included investment bankers Morgan Stanley and some of the US wealthiest individuals, among them Mrs Ann Getty of the Getty oil family.

At first the O'Reilly move was welcomed: the group's crippling debt was reduced and there was talk of a return to profitability. Mr O'Reilly, *underdog* in the marketing field, was portrayed as a white knight, riding in to save a group dangerously close to the financial abyss.

But no more. The union says Mr O'Reilly and his US friends have sparked a confrontation. It says that bad management rather than high wages has caused the present chronic state of Waterford's finances. Striking workers wear badges saying "We can work. They can't manage."

Waterford has a workforce of 2,300 and is still one of Ireland's largest employers. The management, as part of its public relations battle with the unions, has highlighted the wages of more than 1230,000 per year paid to a small group of skilled workers. It says that more than 20 per cent earn between £22,000 and £25,000.

In addition, workers have a comprehensive benefits package and a number of other concessions, which include a 30-minute break for Mass on Holy days.

Mr Brian Patterson, assistant chief executive at Waterford, says that the union is too strong. "In the good days the company bought itself out of trouble. The union is failing to face the economic facts. If we don't do something, there will be no jobs for anyone."

Mr Patterson says present wage costs make it very difficult for Waterford to compete. He says the company could purchase crystal product of identical or even superior quality in eastern Europe for half the price it costs to manufacture in Waterford.

Mr Walter Cullen, a union leader at Waterford, says the management is composed almost entirely of marketing and finance people who know nothing about the complexities of glass manufacturing.

"Here we are producing this prestige product, yet they are saying that there is better quality elsewhere. That's the sort of mismanagement that has got this company into so much trouble," he says.

Mr Cullen says the media in Ireland, a large slice of it controlled by Mr O'Reilly, has unfairly highlighted workers' wages, while neglecting to mention lavish pay-outs to the management. Irish taxes and other deductions mean that many Waterford workers are taking home less than their colleagues at Wedgwood in England, says Mr Cullen.

The union is dismissive of management threats about transferring production outside Ireland. It says skills have



Industrial action by workers outside the factory at Waterford

been built up at Waterford. Its glass is different: it has a higher lead content and is therefore heavier, can be cut more deeply and has more sparkle.

"Waterford crystal is not just a brand, it is a special prod-

uct," says one skilled worker. The present phase of Waterford's troubles began in 1987 when the management, faced with mounting debts after the Wedgwood buy-out and seeking to streamline operations, instituted a redundancy programme.

It planned to cut 750 jobs. In the event more than 1,000 left, including many highly skilled workers. The redundancies cost the company £250m. Serious production hold-ups followed and losses mounted.

Waterford, heavily dependent on sales in the US market, was also seriously affected by the fall in the value of the dollar against the punt.

Last June the union signed an agreement on cost-cutting measures, which the management says the union has failed to fulfil. The agreement included a three-year freeze on wages; in return workers were promised a share in any future company profits.

Though Waterford products continue to sell well and the company says it has adequate stock, a prolonged strike would make a return to profit impossible, at least in the medium term. The strike is already having serious economic repercussions on the small city of Waterford.

But there is a great deal of animosity between the two sides and an agreement seems a long way off. Glass-making began in Waterford towards the end of the 18th Century. After the last war refugees from Eastern Europe revived the industry in the area.

It would be a sad irony for Ireland if its famed crystal industry was now to return to eastern Europe.

This advertisement is issued in compliance with the regulations of the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange"). Application will be made to the Council of The Stock Exchange for all the ordinary shares of CRT Group PLC, issued and to be issued, to be admitted to the Official List. Admission will be conditional upon approval being given by the shareholders of CRT Group PLC to the acquisition of The LINK Organisation plc, rights issue and related proposals at an Extraordinary General Meeting to be held on 21st May, 1990. It is anticipated that the ordinary shares of the Company will be admitted to the Official List on 22nd May, 1990 and that dealings will commence on the same day.



CONSULTANCY · RECRUITMENT · TRAINING

## Listing of CRT Group PLC

(Incorporated and registered in England under the Companies Act 1948 No. 590054)

following the acquisition of The LINK Organisation plc,  
7 for 9 rights issue at 60p per share  
and related proposals

SHARE CAPITAL  
immediately following the  
acquisition and rights issue

Authorised	Issued and fully paid
£28,000,000	£4,398,998
ordinary shares of 10p each	

CRT Group PLC is the holding company of a group whose principal activities are the provision of consultancy, recruitment and training services.

The sponsoring member firm in respect of the listing is Smith Keen Cutler. Listing Particulars, to be dated 21st May, 1990, relating to CRT Group PLC will be made available in the statistical service maintained by Exel Financial Limited. Copies of the Listing Particulars may be obtained during normal business hours (excluding Saturdays) up to and including 17th May, 1990 from the Company Announcements Office, The Stock Exchange, 46-50 Finsbury Square, London EC2A 1DD and up to and including 11th June, 1990 from the registered office of the Company at 51 Druid Street, Hinckley, Leicestershire LE10 1QG, and the following addresses:

Lloyds Merchant Bank Limited,  
40-66 Queen Victoria Street,  
London  
EC4P 4EL

Smith Keen Cutler,  
Exchange Buildings,  
Stephenson Place,  
Birmingham  
B2 4NN.

15th May, 1990

## FINANCIAL NEWS FROM BANK OF SCOTLAND

# Another record year from Britain's "most admired Bank"

\*In a recent poll conducted by The Economist in conjunction with Loughborough University's department of Management Studies, Bank of Scotland was ranked as Britain's most admired bank. Clearly being admired is also good for business.

	1990	1989
Operating Profit	£215.0m	£178.4m
Pre-Tax Profit	£193.5m	£178.1m
Earnings Per 25p Ordinary Stock Unit	14.3p	13.8p
Dividend Per 25p Ordinary Stock Unit	4.55p	3.8p
Advances	£14,364m	£10,706m
Capital Resources	£1,538m	£1,279m

- ☐ With Operating Profit up 21%, Bank of Scotland reinforces its position as one of Britain's most successful financial institutions.
- ☐ Net ordinary dividend for the year increased by 20% to 4.55 pence per 25p Ordinary Stock unit.
- ☐ Increased productivity, with greater volumes of business being processed through the same infrastructure, has reduced the operating expenses/income ratio from 56% to 53%.
- ☐ Bank of Scotland's aim is to deliver a very professional service to its customers and continuing growth for long term investors.



**BANK OF SCOTLAND**  
A FRIEND FOR LIFE

For a copy of the Bank's Annual Report contact the Public Affairs Department, Bank of Scotland, PO Box 725, Orchard Brae House, 30 Queensferry Road, Edinburgh EH4 2UH. Telephone 031 343 7070

## H&amp;C buys Symingtons for £4.5m

By Nikki Tall

Hot on the heels of its £113m purchase of Crossley Builders Merchants from Bowater last Thursday, Harrison & Crossfield is buying the Symingtons packet soup, gravy and dessert

business for £4.5m. Symingtons, based at Market Harborough, Leicestershire was previously owned by HP Foods, and made sales last year of £5.4m.

## CNT

## Caisse Nationale des Télécommunications

FF 600,000,000 Adjustable Rate Series A Bonds due 1996

(issued on May 14, 1986)

and

FF 400,000,000 Adjustable Rate Series A Bonds due 1996

(issued on September 30, 1987)

Unconditionally guaranteed by the Republic of France

In accordance with the Conditions of the Series A Bonds, notice is hereby given that for the interest period from May 14, 1990 to May 14, 1991 the Series A Bonds will carry an interest rate of 9.72% per annum.



The Fiscal Agent  
**KREDIETBANK**  
S.A. LUXEMBOURGEOISE

## NOTICE OF EARLY REDEMPTION



## Korea Exchange Bank

£50,000,000 Floating Rate Notes due 1995

Notice is hereby given, in accordance with Clause 5(b) of the Terms and Conditions of the Notes that Korea Exchange Bank will redeem all of the Notes at their principal amount on the next interest payment date, 20 June 1990, when interest on the Notes will cease to accrue.

Repayment of principal will be made on or after 20 June 1990 against presentation and surrender of the Notes with all unattached coupons attached thereto, at the office of the Fiscal Agent or of the Paying Agent. Interest due on 20 June 1990 will be paid in the normal manner against presentation of Coupon No. 20.

Fiscal Agent:





This announcement appears as a matter of record only.

## GOLDEN GRID plc



Equity Financing of Stg£12.675 Million

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Allied Combined Trust Ltd.  
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Montoire Ltd.  
Pine Street Investments Ltd.

AIB CAPITAL MARKETS plc

acted as Lead Investor in  
the Placing jointly carried out with

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May 1990



## MMEC incurs £3.4m loss and passes final dividend

By Jane Fuller

MERCHANT Manufactory Estate Company, the USM-quoted property investment and development company, plunged to a £3.4m pre-tax loss in 1989, a year which saw a complete change of the senior management team.

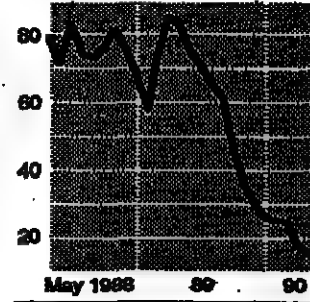
The loss compared with a pre-tax profit in 1988 of more than £3m, restated from the original £4.3m. Mr Simon Southall, chairman since last March, said the most significant factor in this was the new board's review of the profit recorded for the sale of flats at Coxes Lock, a redevelopment of listed mill buildings in Surrey. Sale contracts had been exchanged for some of the flats, but substantial work had remained to be done.

Cost overruns on this development, which took a year longer to complete than anticipated, were one of the main factors in £3.75m of provisions against properties and reorganisation costs. This wiped out the 1989 operating profit of £280,000 on turnover of £5.06m.

Mr Simon Southall, finance director, said sites had been

### Merchant Manufactory

Share price (pence)



acquired at the top of the property market more than a year ago. Because of the slump the company was having to make provisions against holding costs or loss of value.

MMEC's year-end debt stood at £20.8m, reduced from £26.9m through property sales, and the net asset value per share fell to 45p from 60p. No final dividend is being paid.

Mr Southall said the company had a dozen sites, only three of

which were being worked on by builders. The portfolio was still weighted towards residential property, but the intention was to move away from that area. All the prospective developments were commercial.

According to Mr Southall, who joined the company last May, the management changes followed the sale of shares by two of the executive directors, Mr Mark Keegan and Mr Anthony Iremonger, who stepped aside in March last year.

Mr Simon Southall, whose family had purchased shares, replaced Mr Keegan as chairman and by the autumn all four of the executive directors, including Mr Paul de Savary, had gone.

MMEC joined the USM in April 1988. The offer for sale at 80p per share was a flop - two thirds of the shares were left with the underwriters. The highest price the shares have traded at is 80p at the time of joining the market.

Last spring, after the apparent doubling of pre-tax profit in 1988, the price again topped 80p. Yesterday it closed at 50p.

## Hogg buys 19 travel agents

By David Churchill, Leisure Industries Correspondent

HOGG ROBINSON yesterday strengthened its position in the retail travel agency market by buying 19 travel agents from Nelson Travel, a subsidiary of Leisure Investments which is at present in administration, for £850,000.

The move gives Hogg a total of 319 retail travel agents throughout the UK.

Mr Brian Perry, Hogg's chairman, said yesterday that

the acquisition would strengthen Hogg's retail profile in the north of England where demand for holidays was not as badly affected as in the south.

Trade estimates suggest that the level of demand for continental package holidays this summer is running at a level some 20 per cent below this time last year.

Mr Perry also said that pre-tax profits for the year ended

March 31 1990 were likely to be "substantially higher" than those achieved in the previous year.

"The market for holidays has picked up since Christmas and this has led to excellent trading for our travel division in the last quarter of the financial year," he said.

Full results for the last financial year will be announced on June 27.

## Walker Greenbank profits more than double after revamp

By Andrew Bolger

WALKER GREENBANK, the former mini-conglomerate, yesterday reported pre-tax profits more than doubled from £3.1m to £7.3m in the year to February 8.

It had decided to concentrate on its wallcoverings businesses and to dispose of non-core activities and surplus properties.

Mr Nicholas Brown, chairman and chief executive, said considerable progress had been made towards this objective, with £26.8m having been raised from the disposal of seven companies. As a result, the group now had a substantially strengthened balance sheet with net cash resources, which would be increased through the sale of further businesses and vacant property.

Earnings per share also more than doubled, from 2.41p to 5.1p. A final dividend of 1.75p makes a total of 2.75p (2.50p). Turnover rose to £127m (£118m).

The group's conglomerate ambitions and rapid acquisition programme were cut short in 1988 when Alkat, a super-

market shelving company, incurred a loss of £6.5m.

Mr Brown said negotiations were continuing over the sale of non-core businesses such as Montan (which includes Alkat), Bloom Signs and the group's healthcare division.

Operating profit of the core wallcoverings and fabrics business increased by 6 per cent to £7.6m, maintaining its 10-year unbroken record of rising profits.

The board wished to expand its wallcoverings businesses both organically and by acquisition. In particular it was looking at the international fabrics market, and was currently negotiating two acquisitions.

Mr Brown, who replaced Sir Anthony Jolliffe as chairman last May, said: "Despite difficult trading conditions the current year has started well and I am confident that with the legacy of the problems I inherited now substantially behind us, the future of the group under its strengthened management team should be both exciting and financially secure."

### NEWS DIGEST

#### Western Selection in the red

THE EFFECTS of the industrial disputes that hit Western Selection in the second half of last year has spilled over into the six months ended March 31 1990.

Exacerbated by higher and volatile raw material costs, particularly copper, and increased interest rates in the Duratube & Wire subsidiary, they led to a group pre-tax loss of £1.38m for the period, against profits of £268,000 for the first half of 1989-90.

Loss per share was 5.13p. Last three earnings were 4.1p and an interim dividend of 1.7p was paid.

Duratube & Wire, which makes telecommunications wire and cable, recorded a loss of £1.42m (profit £700,000).

However, the parent company did not escape, with its profit cut from £182,000 to £28,000.

#### Glaxo expands with Egyptian acquisition

Glaxo, the UK's largest pharmaceuticals company, is expanding its interests in Egypt through the acquisition of a 51 per cent stake in Advanced Biochemical Industries.

The company did not disclose the cost of the purchase but it is believed to be less than £10m.

ABI, based on the outskirts of Cairo, manufactures, sells and distributes medicines for the Egyptian market and its products account for more than 6 per cent of the pharmaceuticals market.

Three Glaxo executives will join ABI. One will become managing director while the other two will be responsible for technical and financial issues.

Glaxo intends to expand ABI's manufacturing capacity and introduce additional lines. ABI was set up in the early 1980s under the Egyptian Investment Incentive Law and currently employs 700 people.

#### Whitbread Invest net assets fall 12%

Net asset value at Whitbread Investment Company fell by nearly 12 per cent over the six months to March 31 1990, resulting in a drop of 3.5 per cent during the year to that date.

At March 31 1989 the value was 605p. It moved up 9 per cent to 661.2p by September 30 but had fallen to 583.6p by

end-March 1990. Earnings for the year to March improved from 10.32p to 11.69p, and the dividend is stepped up to 11.5p (10.2p) with a final of 3.25p.

Gross income totalled £12.32m (£11.05m) and net revenue £7.37m (£6.51m).

#### Highcroft raises profit and dividend

Highcroft Investment Trust, which holds property and securities, raised its net profit from £417,000 to £469,000 in 1989.

This gave earnings of 8.64p (7.69p). The dividend is stepped up to 8.50p (7.90p) with a final of 1.50p.

Gross income came to £114,000 (£97,000) and pre-tax profit to £283,000 (£212,000).

#### Dean & Bowes goes Dutch with £5m buy

Dean & Bowes Group, the USM-quoted public house refurbisher, is expanding in the Dutch market through the acquisition of Muschter Beheer Ter Aar for up to £5m.

Muschter, based in Ter Aar, is involved in interior design, refurbishment and contracting. It was formed in 1976 and employs 17 people; and made an adjusted consolidated pre-tax profit of £277,000 last year.

The deal, which needs shareholder approval, involves an initial payment of £3m plus a further stage payment of up to £2m, depending on Muschter's results in 1990 and 1991.

Of the first payment, two-thirds would come from a vendor placing of 1.4m new shares at 145p, and the rest from the issue to the sellers of shares with a value of £300,000, which they would retain.

#### Wells Fargo & Company

US\$200,000,000  
Floating rate subordinated capital notes due 1998

In accordance with the provisions of the notes, notice is hereby given that for the interest period 15 May, 1990 to 15 August, 1990 the Notes will carry an interest rate of 8 1/4% per annum. Interest payable on the relevant interest payment date 15 August, 1990 will amount to US\$218.82 per US\$10,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

## MARKS & SPENCER

RESULTS FOR THE FINANCIAL YEAR 1989/90

"...another successful year of increased profits..."

Group profit before tax up 14.2% to £604 million.

Group turnover up £490 million to £5.6 billion.


Proposed dividend per share up by 14.3%.

UK operating profitability up from 11.8% to 12.2%.

Borrowing ratio reduced from 27% to 17%.

StMichael

Copies of the report and accounts for 1989/90 will be mailed to shareholders from 5th June.



**Bankers Trust**  
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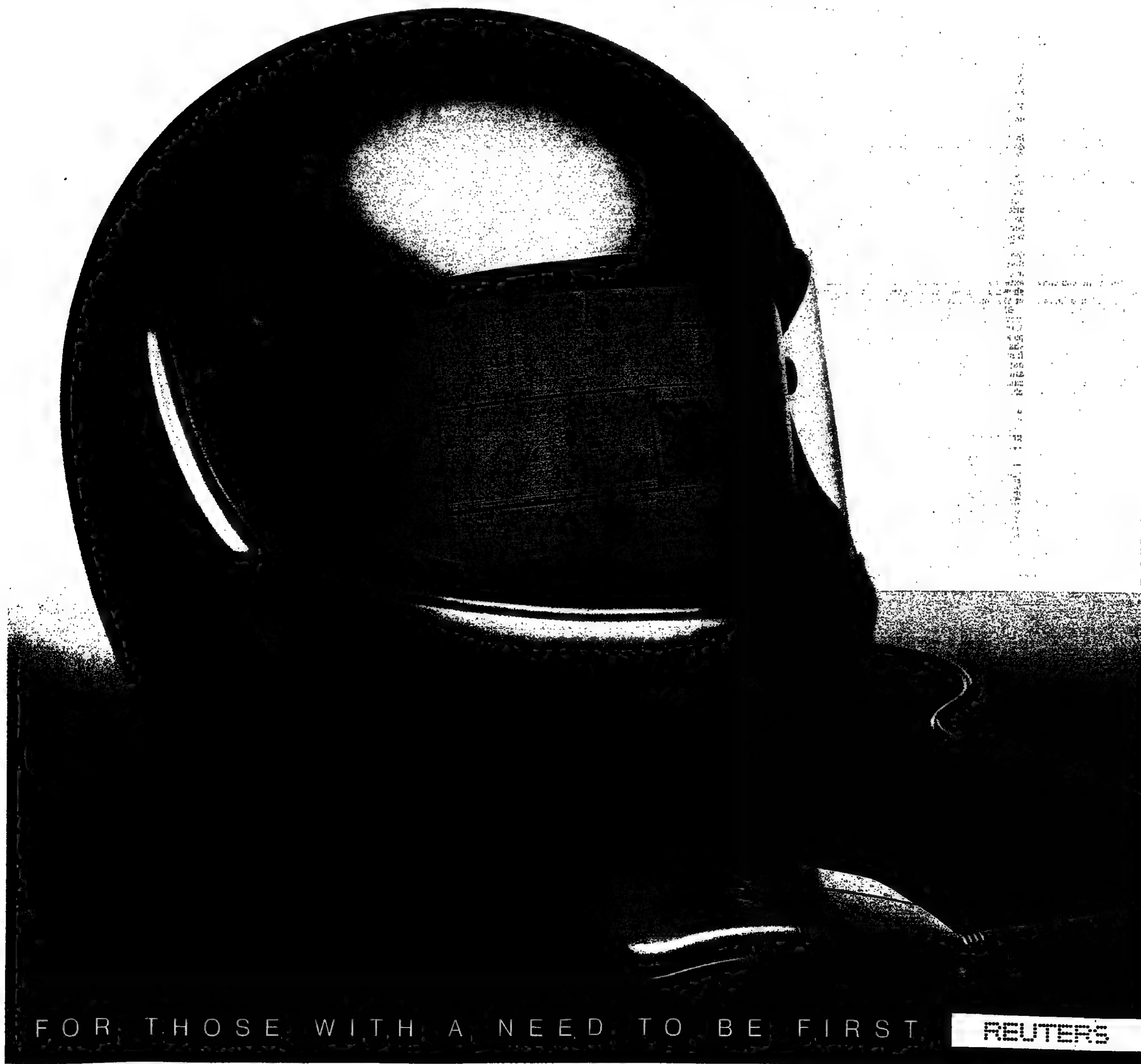
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**Continued on next page**



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1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	9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# CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

### D-Mark falls on elections

THE D-MARK weakened after Sunday's state elections in West Germany resulted in the ruling Christian Democratic Union losing its majority in the upper house of parliament. Dealers regarded the CDU loss of the election in Lower Saxony and its inability to overturn the Social Democrat majority in North Rhine-Westphalia as a rebuff for the plans of Mr Helmut Kohl, the West German Chancellor, on German unification.

The election results renewed uncertainty surrounding the D-Mark, as voters indicated their fears about the financial costs of monetary union with East Germany.

Trading within the European Monetary System left the D-Mark generally weak, losing ground to the Italian lira and French franc. The Bank of Italy bought DM100m at the Milan fixing in an attempt to strengthen the strength of the lira, but the Italian central bank did not appear to support the French franc, the lowest placed member of the system. The lira remained around its upper divergence limit against the weaker EMS members.

At the London close the D-Mark had fallen to 1735.50 from 1737.95 in terms of the lira. The West German currency also lost ground to the

French franc, easing to FF837.05 from FF838.10.

Comments by Mr Markus Lusser, president of the Swiss National Bank, provided support for the Swiss franc. The currency has been firm of late, on high interest rates and demand by Japanese companies covering liabilities in Swiss franc denominated borrowings. It showed little change yesterday, but rose to DM1.1755 from DM1.1690 against the D-Mark. Mr Lusser said the Swiss central bank will keep its monetary policy tight for the foreseeable future, despite the strengthening of the franc. He added: "We still have a problem of rather high inflation and we have decided to continue the (restrictive) policy to bring back price stability."

The dollar traded quietly against the franc, as the market waited for today's figures on US industrial production; tomorrow's data on consumer prices; and Thursday's trade figures for March.

At the London close the dollar had advanced to DM1.6445 from DM1.6395; to FF12.75 from FF12.65; to SF1.3955 from SF1.3950; and to FF5.5425 from FF5.5125. The dollar's index rose to 67.0 from 66.8.

Sterling was also on the sidelines. Economic fundamentals including yesterday's news of higher than expected April UK retail sales - are undermining confidence, but to a large extent this is already reflected in the pound's value. Interest rate differentials in favour of London and nervousness about the D-Mark provided some support.

Sterling was unchanged at \$1.6315 and at ¥256.75 yesterday, but rose to ¥256.75 from ¥256.75; to SF1.3475 from SF1.3450; and to FF5.3200 from FF5.2700. The pound's index climbed 0.4 to 87.5.

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EURO-CURRENCY INTEREST RATES									
May 14	Start	7 day	1 month	3 months	6 months	12 months	18 months	24 months	36 months
US Dollar	14.00-14.05	15.40-15.45	15.40-15.45	15.40-15.45	15.40-15.45	15.40-15.45	15.40-15.45	15.40-15.45	15.40-15.45
UK Pound	10.00-10.05	11.40-11.45	11.40-11.45	11.40-11.45	11.40-11.45	11.40-11.45	11.40-11.45	11.40-11.45	11.40-11.45
French Franc	8.00-8.05	9.40-9.45	9.40-9.45	9.40-9.45	9.40-9.45	9.40-9.45	9.40-9.45	9.40-9.45	9.40-9.45
German Mark	6.00-6.05	7.40-7.45	7.40-7.45	7.40-7.45	7.40-7.45	7.40-7.45	7.40-7.45	7.40-7.45	7.40-7.45
Italian Lira	4.00-4.05	5.40-5.45	5.40-5.45	5.40-5.45	5.40-5.45	5.40-5.45	5.40-5.45	5.40-5.45	5.40-5.45
Spanish Peseta	2.00-2.05	3.40-3.45	3.40-3.45	3.40-3.45	3.40-3.45	3.40-3.45	3.40-3.45	3.40-3.45	3.40-3.45
Portuguese Escudo	1.00-1.05	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45
Belgian Franc	1.00-1.05	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45
Dutch Guilder	1.00-1.05	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45
Austrian Schilling	1.00-1.05	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45	2.40-2.45

Source: Reuters. Rates are for London. All rates are in per cent. All rates are for London. All rates are in per cent. All rates are for London. All rates are in per cent.

## STERLING INDEX

May 14	Index	Points
100	100.00	0.00
100	100.00	0.00
100	100.00	0.00
100	100.00	0.00
100	100.00	0.00
100	100.00	0.00
100	100.00	0.00
100	100.00	0.00
100	100.00	0.00
100	100.00	0.00

## CURRENCY RATES

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

## CURRENCY MOVEMENTS

May 14	Change	Points
US Dollar	0.0000	0.00
UK Pound	0.0000	0.00
French Franc	0.0000	0.00
German Mark	0.0000	0.00
Italian Lira	0.0000	0.00
Spanish Peseta	0.0000	0.00
Portuguese Escudo	0.0000	0.00
Belgian Franc	0.0000	0.00
Dutch Guilder	0.0000	0.00
Austrian Schilling	0.0000	0.00

## OTHER CURRENCIES

May 14	Rate	Points
Japanese Yen	163.15	0.00
Swedish Krona	8.46	0.00
Norwegian Krone	4.76	0.00
Israeli Sheqel	1.80	0.00
South African Rand	6.50	0.00
Thai Baht	5.50	0.00
Philippine Peso	48.00	0.00
Indonesian Rupiah	1500.00	0.00
Singapore Dollar	1.36	0.00
Malaysian Ringgit	2.36	0.00

## MONEY MARKETS

### Rates little changed

REACTION was muted to yesterday's UK economic data. A rise of 1.0 per cent in April retail sales was above most forecasts; the market expected a rise of around 0.6 per cent, but accepted that distortions over seasonal adjustments made the data look stronger than the underlying trend. Rises in producer prices were also high than expected, but had little impact. Three-month

The authorities did not operate in the market before lunch. In the afternoon £268m bills were purchased, by way of £200m Treasury bills in band 2 at 14 per cent and £68m bank bills in band 2 at 14 per cent. Late assistance of around £80m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £268m, with bank balances below target absorbing £30m. These outweighed Exchequer transactions adding £45m to liquidity and a fall in the note circulation of £28m.

In Frankfurt call money was steady at 7.5 per cent ahead of this week's securities repurchase agreement tender. Dealers hope the Bundesbank will fully replace two expiring bills totalling DM18.6bn and may add liquidity to offset a drain of funds caused by tax payments.

Last Thursday banks reserve holdings at the Bundesbank fell to DM57.1bn from DM60.8bn, to average DM59.2bn for the first 10 days of May. A requirement of around DM58bn is expected for the whole month.

In New York the Federal Reserve added temporary reserves to the banking system via three-day system repurchase agreements when Federal funds were trading at 8 per cent.

## FT LONDON INTERBANK FIXING

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

## MONEY RATES

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

## LONDON MONEY RATES

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

## BASE LENDING RATES

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

## FINANCIAL FUTURES AND OPTIONS

### LIFFE LONG GILT FUTURES OPTIONS

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

### LIFFE US TREASURY BOND FUTURES OPTIONS

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

### LIFFE EURO DOLLAR FUTURES OPTIONS

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

### LIFFE SHORT STERLING FUTURES OPTIONS

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

### LIFFE EURO DOLLAR FUTURES OPTIONS

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

### LIFFE EURO DOLLAR FUTURES OPTIONS

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

### LIFFE EURO DOLLAR FUTURES OPTIONS

May 14	Rate	Points
US Dollar	1.6315	0.00
UK Pound	0.78	0.00
French Franc	6.55	0.00
German Mark	1.73	0.00
Italian Lira	1735.50	0.00
Spanish Peseta	166.67	0.00
Portuguese Escudo	200.48	0.00
Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

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May 14	Rate	Points
US Dollar	1.6315	0.00
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German Mark	1.73	0.00
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German Mark	1.73	0.00
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May 14	Rate	Points
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Belgian Franc	36.36	0.00
Dutch Guilder	3.76	0.00
Austrian Schilling	13.76	0.00

### LIFFE EURO DOLLAR FUTURES OPTIONS

BANK FIXING		
in months US Dollars		
1st 31	2nd 31	3rd 31
on one-month, of the bid and offered rates for \$1.00 each working day. The banks are National Westminster Bank and Morgan Guaranty Trust.		







## 4pm prices May 14

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**Continued on Page 47**



**NASDAQ NATIONAL MARKET**[illegible]

**FINANCIAL TIMES**  
EUROPE'S BUSINESS NEWSPAPER

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## AMERICA

## Euphoric mood pushes Dow to record highs

## Wall Street

EUPHORIA from Friday's stock market rally coupled with widespread belief that interest rates will fall helped push the Dow Jones Industrial Average to a record high in the day, writes Karen Zagor in New York.

The Dow Jones Industrial Average closed up 19.95 points at 3,821.58, well above its previous high of 3,810.15 on January 2. On Friday, the Dow added 83.07 points to close at 3,801.53.

Volume on the New York Stock Exchange was heavy, with 227.7m shares changing hands. On the big board, advancing issues outpaced those declining by 1,061 to 527.

The improvement in stock prices was broadly based, with all of the Dow Jones averages posting gains.

Among other market indices, the Standard & Poor's 500 jumped 3.20 points to 356.31, the New York Stock Exchange Composite added 2.18 points to 194.42 and the American Exchange Composite rose 2.49 points to 354.99.

The rally was attributed partly to a rush into stocks by institutional investors who believe that interest rates have now peaked.

In the bond market, interest rates continued to fall yesterday as prices rose. In late trading, the Treasury's benchmark 30-year bond was up 1/8 point at 101 1/8, to yield 8.55 per cent.

A number of blue chip issues moved higher at yesterday in active trading.

Philip Morris gained 3/4 to \$44 1/4, Dupont improved 1/4 to \$40 1/4, General Electric rose 1/4 to \$68 1/4, IBM was unchanged at \$114 1/4.

Several technology issues also surged yesterday. Digital Equipment climbed 1 1/2 to \$90 1/4, Compaq Computer gained 1 1/4 to \$111 1/4, and Hewlett-Packard advanced 1 1/4 to \$89 1/4.

W.R. Grace gained 3/4 to \$38 1/4. A catalytic converter made by the company's Catalytic Unit is being tested by environmental officials in California. The converter could help keep

gasoline-powered cars on the road.

Among the big three US auto makers, General Motors rose 1/4 to \$47 1/4, Chrysler added 1/4 to \$37 1/4 and Ford gained 1/4 to \$41 1/4.

Mylan Laboratories lost 1/4 to \$22 1/4, after an analyst lowered its estimate of the company's earnings for 1991 to \$1.30 a share from \$1.33 a share, citing a drop in April sales of the company's Edepriol drug.

USX rose 1/4 to \$34 1/4 on reports that an analyst had valued the company at about \$50 a share.

Prime Motor Inns jumped 1/4 to \$12 1/4 after Manor Care said it was interested in bidding for two of the company's hotel franchises, Howard Johnson and Ramada. Prime has already agreed in principle to sell a 60 per cent interest in the systems to Blackstone Capital Partners for about \$200m in cash and notes.

Stone Container added 1/4 to \$18 1/4 on reports that the Pritzker family of Chicago holds a stake of more than 3 per cent in the company.

In over-the-counter trading, MCI Communications added 1/4 to \$40 1/4 in active trading. Sun Microsystems gained 1/4 to \$30 1/4 and Seagate Technology rose 1/4 to \$14 1/4.

Atlantic Richfield gained 1/4 to \$18 1/4 after an analyst repeated a "buy" rating.

## Canada

TORONTO stocks dropped in active trading, ending the market's eighth day winning streak.

Toronto's 300 Composite Index fell 8.48 points to 3,526.50, after showing a gain around mid-day of more than 22 points. Declines narrowly beat out advances of 312 to 300.

Consumer products was the best performing sector, rising 1.1 per cent on index, largely on the strength of Seagrams, which rose 2 1/4 to 96 1/4.

Gold stocks were also lower, dropping 1.3 per cent on index as the price of spot gold fell 30 cents to \$398.55 an ounce in light New York dealings.

## EUROPE

## International gains discounted in continental melée

THERE was a distinct lack of follow-through on the Continent after gains on Wall Street and in Tokyo. Frankfurt's fall quenched Zurich's rally while selected stocks pulled Amsterdam and Stockholm higher, writes Our Markets Staff.

FRANKFURT registered its quietest at a Lower Saxony election result which reversed the apparent trend after good results for the Christian Democrats in the East German elections.

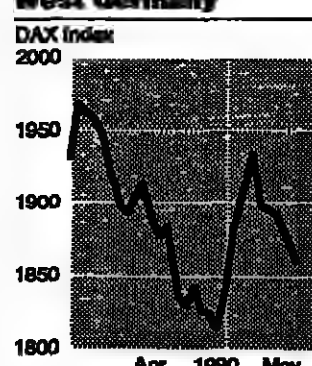
The Bundesbank's average bond yield rose 7 basis points to 8.86 per cent, and equities showed their fifth consecutive decline, the DAX index falling 14.70 to 1,890.38 after a somewhat steeper 10.51 drop to 786.79 in the FAZ at mid-session. Volume fell from DM7.2bn to DM6.3bn.

However, last Friday's blood-letting in the senior blue chips was effectively ping-pong, Deutsche Bank managed to hold firm at DM789.50, and trade in DM1.1bn as traders took advantage of technical possibilities after its rights issue, trading between new shares and old.

Other features included Metallgesellschaft, to be promoted with Preussag in the DAX index in place of Nixdorf and Feldmühle Nobel later this year, but down DM16 yesterday to DM655. Last Friday's 10 per cent rise in first half profits was effectively negated, said analysts, particularly after 1989-90 results at the lower end of their expectations.

Elsewhere, Linotype fell DM59 to DM311. News that it was hiding for a Siemens unit, clearly, was much less

## West Germany



Metallgesellschaft, to be promoted with Preussag in the DAX index in place of Nixdorf and Feldmühle Nobel later this year, but down DM16 yesterday to DM655. Last Friday's 10 per cent rise in first half profits was effectively negated, said analysts, particularly after 1989-90 results at the lower end of their expectations.

Elsewhere, Linotype fell DM59 to DM311. News that it was hiding for a Siemens unit, clearly, was much less

exciting than the earlier rumour that Siemens was going to bid for Linotype itself. ZURICH lost its glitter as it worried about Frankfurt's performance, renewed its interest in shares, and saw profit-taking after last week's strong rally which left the Credit Suisse index 5.8 lower at 820.3.

STOCKHOLM started the week in confident mood after last week's strength. Domestic institutions continued to buy actively and brokers expected Sweden's army of private investors to follow suit. Strong gains in Asea, on the back of analysts' recommendations, also pushed the market higher. Asea rose 3 shares added SKR35 to SKR78.5. The weighted Affarsvården general index rose 10.4 to 1294.0 in turnover of NK138m.

Ericsson continued to dominate activity, with SKR60m worth of shares traded, but the free B's were unchanged at SKR1,080. The home appliance group Electrolux, which has issued profits warnings to analysts, rose SKR4 to SKR263.

PARIS ended softer in generally featureless trading but came off the day's lows on selective bargain-hunting and Wall Street's gains. The CAC 40 index hit a low of 2,063.50 and a high of 2,098.99 before closing at 2,080.14, down 1.71. Turnover was around FF7.2bn, below last week's levels of between FF7.5bn and FF8.1bn.

Among featured stocks, Suez eased FF1.50 to FF476.40 before today's announcement of 1989 results — which analysts expect to show a rise of at least 50 per cent, due to improved earnings from its Belgian subsidiary Générale de Belgique. Lafarge, the builder which has lagged behind the market, bucked the trend to close up FF6.50 at FF446, with 204,554 shares traded. BSN rose FF6 to FF363 on bargain-hunting. Hachette, which fell heavily last week, slipped further to close FF5.50 lower at FF430.

AMSTERDAM was cheered by news that Philips' chairman Mr Cor van der Klugt would retire on July 1, one year early, to be replaced by Mr Jan Timmer, the man credited with

turning around the company's consumer electronics division. The stock closed FL1.90 higher at FL33.30.

Gains on Wall Street and in the UK boosted other multinationals. Unilever rose FL4.70 following its first quarter figures which Royal Dutch, due to announce its first quarter results on Thursday, was FL3.20 higher at FL142.80. The insurance company, Daf, the truckmaker, remained under a cloud and eased 40 cents to

SEK14. The CBS Tendency index rose 1.5 to 117.8. MILAN finished higher in active trading before the May trading account deadline on Wednesday. Monday's expiration of monthly stock options contracts concluded smoothly, with only about 35 per cent of all options exercised. As a result, subsequent sales of the options' underlying shares were taken up easily by the market. The Comit index rose 2.93 to 703.92.

MADRID was encouraged by further signs that inflation was slowing at last. The consumer price index rose 0.2 per cent in April, giving a year-on-year rate of 7.0 per cent, unchanged from March. The index closed 3.48 points higher at 285.69. Brokers reported foreign buying of banking stocks, which ended mostly higher.

OSLO closed near its all-time high of 7.0 per cent, unchanged from March. The index closed 649.73 set in March. Norsk Hydro rose NK3 to NK207.5. The shipping index was up 8.43 to SEK14.

## ASIA PACIFIC

## Nikkei tops 32,000 for the first time in two months

## Tokyo

BUILDING on last week's success, the market recorded another strong gain yesterday with the Nikkei average topping 32,000 for the first time in almost two months, writes Michiko Nakamoto in Tokyo.

The yen's sharp rise against the dollar, continuing strength in the bond market and gains in overseas markets boosted sentiment. The Nikkei, having risen through 31,000 on Friday, closed 530.81 higher at 32,042.65, only slightly below the day's high of 32,071.08.

Share prices maintained a strong uptrend through the day with the 31,541.95 intraday low marked at the opening. Advances outnumbered declines by 761 to 225 with 137 unchanged. Turnover rose from 800m shares to 800m, buoyant for a Monday, the broadly-based Topix index rose 41.85 to 2,292.89, in London the ISE/Nikkei 50 index fell 3.57 to 1,765.42.

Expectations that US interest rates would come down, or at least that they would not rise in the near future, have provided investors with a great excuse to step up their activity in equities. The yen's recent rise has also seemed remarkable in the wake of its extended weakness and has led to a resurgence of confidence in the Japanese economy.

However, there is contrary opinion. "It's a bear market rally," said one analyst, who pointed out that the problems which beset the market at the beginning of the year have not been resolved. The yen and the bond market may have gained strongly recently, but this has been relative to the sluggishness which has characterised both markets since the start of the year.

A close look at the sources of buying yesterday might give the more cautious investor cause for concern. Along with arbitrage buying there was considerable buying by brokers on their own account. Institutional investors, on the other hand, have stepped up their selling. Their portfolios

were last valued for accounting purposes at the end of March, as stocks have exceeded those levels, fund managers have been selling them to bring profits to book, even though they may have bought the stocks at higher prices.

Meanwhile, yesterday again favoured companies which depend on domestic demand. Those which are sensitive to interest rates, and thus led the market down, were particularly favoured. Among these were banks, such as Industrial Bank of Japan, which gained Y190 to Y4,370 and Fui Bank, which rose Y100 to Y2,580. Nomura Securities advanced Y130 to Y3,420.

Big steels and heavy industries kept their share. Nippon Steel led the most active issues in 44.2m shares, adding Y18 to Y628. Mitsubishi Heavy Industries was third in volume with 36.2m shares and climbed Y31 to Y1,010. A newspaper report that MHI would once again lead a Japanese group with the largest share of work on Boeing's jet, the B777, confirmed

the fifth consecutive session, on weakness in the important financial sector. The weighted index shed 13.84 to 8,361.18, its lowest closing level since December 12. Volume was 776m shares and NT\$53bn, the latter its lowest this year, against 765m and NT\$56bn on Saturday.

Elsewhere, HONG KONG saw Wall Street-inspired gains eroded by mixed political news from China, and the Hang Seng index closed 15.98 higher at 3,576.44. SINGAPORE faced a narrow profit-taking and the Straits Times Industrial index closed only 3.80 higher at 1,536.07, and JAKARTA fell 12.70 to 880.61.

SOUTH AFRICA GOLD shares were mixed after Friday's losses. The rest of the market also lacked direction. The all-gold index rose 4 to 1,786 while the overall index gained 8 to 3,185. Vael Report on B4 to R333 and De Beers rose R1.15 to R28.55.

TAIWAN also dropped for

## Hopes for lower rates lift equities

## MARKETS IN PERSPECTIVE

	1 Week	4 Weeks	1 Year	Start of 1989	Start of 1990	Start of 1991
Austria	-0.11	-0.00	+79.08	+37.43	+38.44	+42.27
Belgium	+0.80	-0.27	-3.35	-6.54	-6.70	-1.87
Denmark	+0.28	-2.17	+1.54	-2.03	-0.26	+3.35
Finland	+0.10	-3.54	-18.12	-2.24	-3.48	+0.25
France	-0.57	-0.47	+22.78	+2.83	+3.49	+7.92
Germany	-0.85	-1.16	+38.27	+6.76	+6.22	+10.77
Ireland	+0.19	-7.36	+5.24	-4.38	-5.17	-1.12
Italy	-0.11	-1.18	+11.98	+1.62	+4.86	+0.40
Netherlands	-0.23	-2.50	+1.38	-4.41	-4.42	-2.42
Norway	+6.02	+4.30	+23.94	+18.23	+17.19	+22.21
Spain	+2.55	+7.89	-8.47	-6.61	-4.65	-0.56
Sweden	+5.95	+10.23	+19.54	+1.87	+0.82	+5.14
Switzerland	+4.68	+4.58	+15.58	+1.89	+4.04	+4.86
UK	-0.64	-2.30	+0.58	-10.51	-10.51	-8.86
EUROPE	+0.54	-0.79	+18.71	-3.48	-2.86	+1.19
Australia	+1.81	-0.70	+0.79	-8.09	-18.89	-12.29
Hong Kong	+0.91	-0.58	+11.73	+4.87	+0.76	+6.07
Japan	+4.03	+8.16	+11.50	-18.81	-27.58	-24.46
Malaysia	+5.54	-0.41	+20.64	+4.09	-7.87	-3.08
New Zealand	-0.18	-0.02	-6.51	-11.37	-18.10	-14.61
Singapore	+5.31	+2.88	+18.37	+8.09	+2.48	+11.00
Canada	+4.51	-0.70	+0.10	-8.98	-14.18	-10.51
USA	+3.98	+2.10	+13.88	-0.81	-4.89	-0.81
Mexico	+4.19	+11.24	+188.78	+42.84	+30.54	+36.15
South Africa	+2.63	+2.13	+31.22	+5.00	-7.06	-3.06
WORLD INDEX	+3.05	+3.22	+1.93	-8.28	-14.69	-16.41

Based on May 11th 1990. Copyright, The Financial Times Limited, Goldman, Sachs & Co. and County NatWest Securities Ltd.

## By Antonia Sharpe

RELIEF that the US quarterly refunding auction was successful and a growing consensus that the Federal Reserve was unlikely to raise interest rates lifted Wall Street last week.

The yen's continued strength and stable bond prices bolstered investor confidence in the Japanese equity market.

The FT-Actuaries World Indices showed rises of 3.98 per cent and 4.03 per cent in local currency terms on Wall Street and Tokyo, which contributed substantially to the 3.95 per cent gain in the World Index.

In Europe, Norway produced the largest weekly rise, of 6.02 per cent, thanks to higher oil prices, signs that shipping rates had bottomed out and lower domestic interest rates.

Sweden advanced 5.95 per cent on the week, fuelled by excellent first quarter results from Ericsson and news that it had broken into the West German telecommunications market.

But Mr Bridge fears that

all of the good news may now be in the price. Profit warnings from Electrolux, poor economic fundamentals and any bad news from current wage talks could sour market sentiment.

A stronger Swiss franc and expectations of lower domestic interest rates pushed Zurich 5.89 per cent higher as international investors aggressively bought banking, insurance and chemical stocks. Mr Mark

views the rally with some scepticism, since it is anticipating interest rate improvements unlikely before the third or fourth quarters. Furthermore, the strong franc will hurt export-oriented companies.

Singapore and Malaysia outperformed the rest of Asia, rising 5.31 and 5.54 per cent respectively, inspired by gains in Japan and on Wall Street.

Mr Nick Peacock at Citicorp Securities Vickers International expects caution to dominate both markets for the next week. But the outlook for Singapore and Malaysia remain favourable given the strong economic fundamentals, Mr Peacock writes.

Undoubtedly, it will be very difficult to merge the East German economy with West Germany's. For one thing, no historical precedent exists for the required switch from a command to a market economy. For another, East Germans' standard of living, in terms of both the goods available to them and the quality of the environment, is substantially lower than that of West Germans.

Although public debate focuses on monetary union, the fundamental problem can only be solved in the real economy: how can the supply of goods in East Germany be improved in terms of both quality and quantity as to avoid economic and political instability?

Possible solutions Basically, there are three ways of doing this, and each would have different economic consequences for Germany and Europe. The best way would be to increase output. But at present this is difficult in West Germany given its very high capacity utilization level and its shortage of skilled work-

## VIEWPOINT

## The Commerzbank report on German business and finance

## Does German unification mean higher inflation?

The West German Government's plan for a monetary union with East Germany has triggered fears, above all in other countries, about the D-mark's internal and external stability. As a result, German bond yields soared, even rising briefly to over 9%. Are such fears justified?

Undoubtedly, it will be very difficult to merge the East German economy with West Germany's. For one thing, no historical precedent exists for the required switch from a command to a market economy. For another, East Germans' standard of living, in terms of both the goods available to them and the quality of the environment, is substantially lower than that of West Germans.

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## German interest rates and prices

ers. And it is not really feasible in East Germany either, which must restructure its entire economy along free-market lines — a daunting task — before it can hope to increase output significantly. Consequently, this approach alone cannot solve the problem, at least not in the short run.

Finally, the third method would be to reduce demand for German exports and, at the same time, rely to a greater extent on imports to meet domestic demand. This approach has much to recommend it: the structural imbalance in West Germany's external trade would be reduced and

its European partners would reap direct economic benefits. If higher inflation is ruled out as a means of achieving a reorientation within the West German economy — as it obviously must be — then this shift can only be brought about by a

The second possibility would be to reduce domestic demand in West Germany by squeezing private and government consumption. However, cuts in capital spending would be unwise as they would mean less production capacity in the future, rendering the first approach unworkable in the medium term as well. Private consumption would have to be curbed through tax increases, which — even if only temporary — would be unpopular to say the least, coming as they would in the wake of a major tax reform.

real-term appreciation of the D-mark. However, this should happen automatically if the current fears that German monetary union will fuel inflation prove to be groundless and East Germany is able to offer attractive investment opportunities. Consequently, nothing should be done at the European level which would prevent the D-mark from appreciating.

However, there is no need for the process of European monetary integration to come to a standstill. Indeed, important problems have to be addressed before the second stage of the Delors Plan can be tackled.

Initially, though, the introduction of the West German currency in East Germany will be little more than a technical move which, in the short run, may make it harder for the Bundesbank to steer a stability-oriented course. In itself, the switch from the Ost-mark to the D-mark will not necessarily be a major source of inflationary pressure. The inflation rate in the years ahead will be determined primarily by how well the economy succeeds in increasing the supply of goods in East Germany and by what happens on the wage front.

At present, there is no reason to assume that inflation will be notably higher in the future than it has been in recent years; seen in this light, the sharp rise in interest rates surely represents an overreaction on the part of the capital markets.

COMMERZBANK German knowhow in global finance

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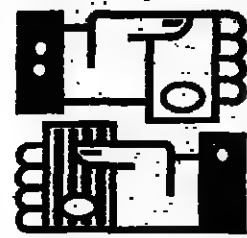
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SECTION III

# FINANCIAL TIMES SURVEY



The 1990s will see the competition pace quicken on almost every front, as a new relationship evolves

between banks and insurance societies. Forces for change acting on the European industry may make the situation even more fluid, writes Patrick Cockburn

## Change is the only certainty

AT THE start of the 1990s the 4,600 insurance companies in the European Community are under pressure from two directions. The relationship between the insurance industry and other financial services is changing. At the same time, banks and building societies are becoming key distributors of insurance products.

Insurance companies, with the partial exception of the UK and Switzerland, traditionally confined themselves to national markets. But the shift towards a single European market has started a spate in acquisitions, mergers and alliances which is changing the shape of the industry across the Continent.

The single European market in insurance is as much the result of the ease of these developments. And there remain sceptics who argue that other national markets will prove extraordinarily difficult to penetrate and banks will find it far more complex to sell insurance than they imagine.

But over the past two years expectations of change have become strong enough to create their own momentum. Even those content with predominance within their own national market suspect that they need to expand abroad, if only to

defend their present position.

"We have to be big in Europe to retain our present position in the UK where we earn 70 per cent of our premiums," says Mr Colin Hake, director of the European division of Sun Alliance, the largest UK composite.

Looking at the future of the insurance industry from a slightly broader perspective, the French Government concluded two years ago that it had to deregulate and expand to compete successfully for savings with banks and other financial institutions.

In the long term it is becoming almost conventional wisdom to suggest that the 1990s will see a quickening of corporate competition on almost every front. Smaller and medium-sized companies will establish specialities and niches in the market, with a few larger European companies dominating the Continent.

On this reading the dominant forces in European insurance within the next 10 years would include Allianz in West Germany, UAP and Axa-Midi in France, Prudential and Sun Alliance in the UK, Generali in Italy and Zurich Insurance and Winterthur in Switzerland.

Yet although it is easy to envisage the forces favouring corporate concentration, the mechanism by which it will be achieved is more illusive. Clearly the irregular pattern of deregulation, of which 1989 is part, will lead to a greater increase in the supply of insurance than in demand.

Competition is bound to intensify but winners and losers may be slow to emerge. This is partly because the market for both life and non-life insurance is expanding fast. In the mature markets of northern Europe life business has been growing two or three times as fast as GDP. Smaller companies may lose market share but still remain profitable.

In Britain, for instance, small



# INSURANCE

mutuals, short on capital and distribution, should be among the first casualties in any concentration of the industry. But the boom in mortgage endorsement in 1988 and personal pensions in 1989 made the minnows of the insurance industry less vulnerable than appeared likely in the aftermath of the Financial Services Act.

A similar increase in overall demand may ease the problems of smaller companies across Europe. Even in a mature market like West Germany real growth rates for life business are expected to be 5 to 10 per cent a year up to 1995 and 6 per cent in non-life business. In the

less well insured markets of France, Italy, Spain, Portugal and Greece the annual growth in life business may continue to exceed 20 per cent.

Demographics and economic trends both favour insurance. As Europeans live longer, a higher proportion are looking for insurance. They are also richer, so there are more houses and cars of higher value looking for insurance. In the UK, for instance, the number of households with central heating increased from 57 per cent in 1972 to 75 per cent today.

But in the longer term smaller companies are bound to be squeezed. In the UK, for

instance, the election of a Labour Government more hostile to private pensions in 1992, without any compensating business from a resurgence in the housing market, would put intense pressure on some insurers. Almost inevitably, they would look for larger partners.

That crunch has yet to come. For the moment the cost of buying an insurance company is high almost anywhere in Europe. According to Mr Tony Broad, chief executive of Commercial Union, the difficulty in getting value for money "has caused us to turn down several high-priced acquisitions and to concentrate instead on the

organic growth of our existing widespread network. Should suitable companies become available at an acceptable price, however, we should not hesitate to acquire them."

The problem for US and UK companies looking for a European strategy, says Mr Michael Butt, chief executive of Eagle Star, is that "continental companies are prepared to see a dilution of earnings per share" in a way that American and British companies are not.

They may be well out of it. The forces for change acting on the European insurance industry in every market are sufficient in number to make the situation extremely fluid - and likely to become more so. This makes it difficult to devise an effective strategy based on acquisitions, mergers or alliances. Across-border efficiencies of scale are of dubious value. Life and personal lines (motor and household) insurance have to be handled locally and commercial companies looking for a range of international carriers can find them through brokers.

The problem is that the publicity surrounding 1992 has made the internationalisation of European insurance a la mode two or three years before the changes become a reality. This means that fear of being left behind is forcing companies to take decisions and spend money earlier than they would like and before there is sufficient information about the future shape of the industry.

Behind the fear of being left behind lies a concern about distribution networks being snapped up by competitors. Speaking of the UK, Mr Chris Fountain of Morgan Stanley says: "The key development in the life insurance industry is that the next, historic distinction between manufacturer (the life companies) and distributor are breaking down. A process is in train which will culminate in the market being dominated by groups which can boast control of distribution, capital and expertise in manufacturing life insurance."

In the new balance of power between insurance companies, banks and building societies, the insurers may be in a weak position because their expertise can be replicated in the way that distribution outlets cannot.

As a result, there has been a rush to form links as the number of independent intermediaries diminishes. But many of

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Illustration: Michael Kilbane

### IN THIS SURVEY

the ties may prove impermanent. In the aftermath of the Financial Services Act, says Mr Butt, "the greatest danger in the scramble is to do too much."

The relative effectiveness of different methods of distribution is only gradually becoming clear.

But in the new relationship between banks and insurance societies, the most potent threat to traditional life assurance comes from purpose-built structures combining the strengths of banks and insurance companies. Mr Michael Hapner, chairman of Lloyd's Abbey Life, says his salesmen with access to the so-called warm customer base of Lloyd's Bank are four times as productive as those without.

For non-life business the 1990s also promises more intense competition. An unprecedented series of disasters which hit the US property/casualty market in 1989 (Hurricane Hugo, San Francisco earthquake and the Phillips Petroleum petrochemical plant explosion) did not take enough capacity out of the market to speed up the end of the present down-cycle. Similarly in Britain it is still too early to see the impact of the storms in January and February on premiums.

But in the UK, as in the rest of Europe, the capacity of the market and intensified competition must mean prolonged pressure on prices. Personal lines will be affected by direct sales by telephone and mail. Large commercial risks are already insured on an international basis, but margins may be squeezed as brokers offer medium-sized companies a wider choice of carriers.

Underwriting losses by non-life companies in the late 1980s were more than compensated for by the sharp increase in asset values over the decade. In both the US and the UK the performance of equity and property markets was in sharp contrast to the depression in asset values in the 1970s.

Overall, the belief that the insurance industry is entering a decade of fundamental and irreversible change is surely correct. Scenarios about the radicalism of these developments stems largely from the way in which perceptions of this change - thanks to the publicity attendant on the European single market - have preceded reality. Faced with the uncertainties ahead, insurance companies may look back on the certainties of the 1980s as a stable and prosperous golden age.

## When the ABI was founded 5 years ago, we were already looking forward to where we'd all be today.

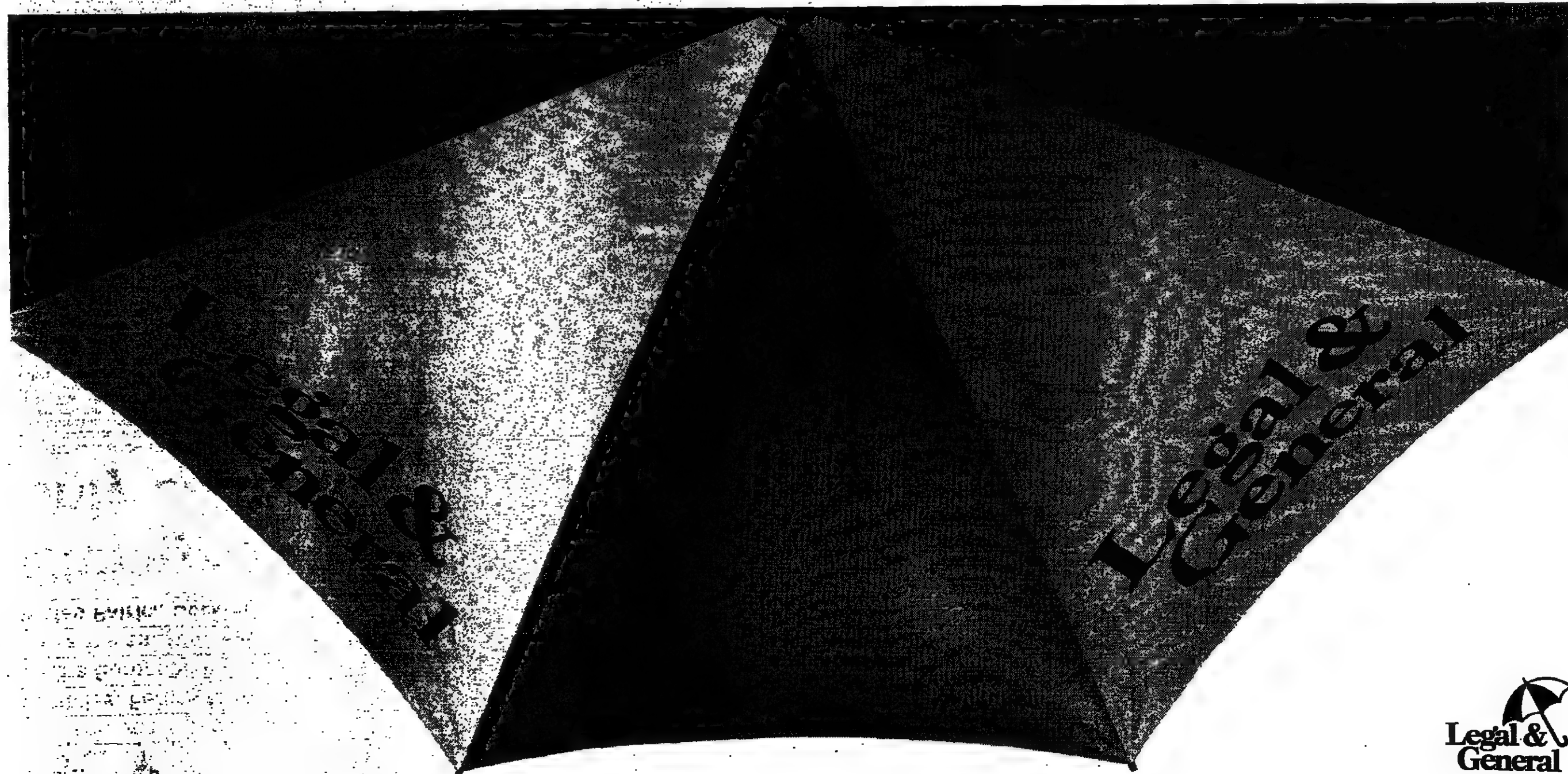
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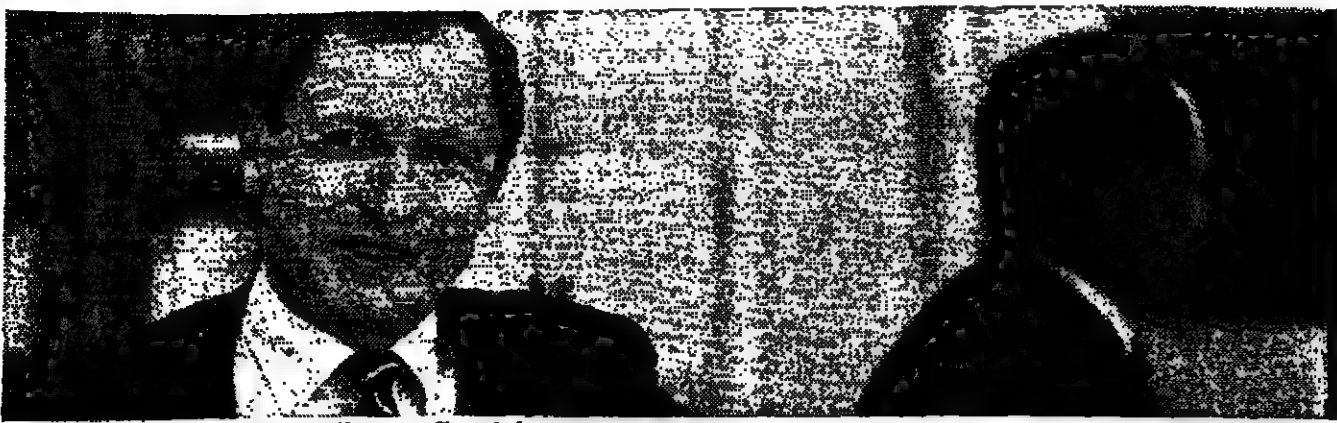
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## INSURANCE 2



Jean Peyrelevade, chairman of UAP, the French insurance company

Patrick Cockburn on the likely effect of the single European market

## The less fit may go to the wall

"I AM not a predator," Mr Jean Peyrelevade, chairman of UAP, the largest French insurer, told journalists soon after flying into London last February and at intervals later in the day he reiterated his non-predatory intentions to a sceptical audience of institutional investors.

The interest in Mr Peyrelevade's plans is not surprising. The European insurance market is changing. National companies are looking to expand by acquisition, merger or alliance. Insurers are looking for new methods of distribution through banks and building societies.

But while there is agreement that the industry is changing there is very little consensus about the shape of European insurance is likely to take by the end of the decade. Will the top 10 companies such as Allianz of West Germany, Generali of Austria, Zurich and Winterthur of Switzerland, UAP and Axa-Midi of France and Prudential and Sun Alliance of the UK establish dominance over the market?

If UAP is the exemplar, then there will be a rapid concentration among the European Community's 4,000 insurance companies. Since 1988 it has taken a 26 per cent stake in Sun Life, the UK life company, 34 per cent of Groupe Victoire in France and 31 per cent of Royal Belge, the second largest Belgian insurer. Among European companies it has been the most single-minded in its pursuit of European market share.

Yet the extent of real change in European insurance still

provokes scepticism among some insurers. These doubts centre on the degree to which the European Commission will really succeed in introducing a single market in insurance.

Regulatory obstacles will continue past 1992 with West Germany, the largest market in the EC, still unsentimental about reducing state direction of the industry.

Furthermore, some 70 per cent of premiums paid by West Europeans are for life and personal insurance such as motor and household. These lines are traditionally sold through a network of agents. In West Germany alone some 43,000 agents work for Allianz. Without such distribution in place, cross-border selling of this type of insurance is almost impossible.

Increased competition in the 1990s is more likely for medium-scale commercial risks, particularly as brokers offer clients competing products and prices from other parts of the Community.

But although it is easy enough to prove that a single market in insurance is unlikely in the 1990s, scepticism can be carried too far. The forces for change are extremely powerful.

In the first place, the European insurance market is worth some £160bn a year in terms of net premium income. Therefore the market does not have to change very much to produce large revenues for individual companies. In other words, it is not necessary to suggest that the cartel-like organisation of German life companies will entirely break

down to conclude that small but valuable niches may open up in the German life market.

A further key impulse for change in European insurance is not only that the market is large but that it is growing fast, above all in life insurance.

In the mature markets of UK, Netherlands and West Germany life business is growing two or three times as fast as GDP. In the less developed Mediterranean markets of Italy, Spain, Portugal and Greece the increase is 10 times that of GDP.

Efficiencies of scale may be limited or even non-existent but some major European insurers - notably in France - have evidently decided this is the moment to go for size and to pay high prices for doing so. The collapse of Axa-Midi's bid for the Los Angeles-based Farmers Group means that it has \$5.5bn free for other acquisitions.

Axa has already suggested, however, that these purchases are likely to be in the US where prices may be more attractive than in Europe. Within the Community there remains a shortage of companies to buy and there are still inhibitions about hostile bids. The most obvious targets are UK composites or life companies but, despite stock market expectations at the turn of the year, no such bid actually occurred.

Not everybody is so well placed to dilute earnings per share by paying steep prices. UK and US insurers have been able to make only limited purchases, primarily of smaller companies in southern Europe.

Other companies feel inhibited by the fear that they may spend heavily buying a distribution system elsewhere in Europe only to find that the development of alternative methods of distribution has devalued their investment.

Distribution through banks and building societies is a new enough development for its limitations to be unclear. Simple life and some non-life products can clearly be sold through branch offices of other financial institutions. Equally threatening for life companies are custom-built companies such as that set up by Lloyd's Abbey Life, where the life policy salesmen have access to the so-called warm customer base of Lloyd's Bank. According to Lloyd's Abbey Life, this access to the bank's 6m customers multiplies the effectiveness of its salesforce by a factor of five.

In non-life business, direct sales via the telephone and mail are also likely to bite into margins and the market share of some traditional suppliers. These new methods of distribution are still at an early stage but, whatever their limitations, the quickening of competition must inevitably affect prices. This in turn is bound to hit smaller insurance companies without a secure market niche in which they are less

vulnerable to competition. And so, the shift towards a European insurance industry concentrated in fewer hands is likely to be accompanied by increased price competition, winnowing out the less financially fit.

## LLOYD'S

## The problems in perspective

DOES LLOYD'S face problems because it is an archaic and outmoded institution or because the type of property/casualty insurance in which it specialises is at the bottom of a down-cycle?

Both of these views have their merits. Even with overall capacity of £11bn, the small size of the 410 syndicates makes it difficult for them to compete against large commercial insurance companies. "We are too fragmented. We cannot punch our weight," says Mr Murray Lawrence, chairman of Lloyd's. There is not much Lloyd's can do about this. Ever since brokers were forced by the Lloyd's Act to sell their managing agencies, all the players in the market have been hampered by lack of scale. Managing agents, members' agents and the syndicates themselves all have difficulty marketing their products and modernising the way they do business.

This may ultimately mean that the 1990s will see the market increasingly dominated by a few big agencies such as Sturges and Merrett. "I see no more than 100-150 agencies operating in Lloyd's by the end of the 1990s," says Mr David Coleridge, chairman of Sturges, the largest managing agency. That would be less than half the current number.

But even so, it would leave the units

**The weakness of the dollar, in which much of the business is denominated, against sterling**

which make up Lloyd's smaller than the commercial competition. Slightly larger managing agencies will still not have the money to invest heavily in finding new markets in western or eastern Europe any more than their somewhat smaller predecessors. The real key here remains the relationship between the brokers and the Lloyd's market.

More immediately, however, the main problem for Lloyd's has less to do with the institutional shortcomings of the market than the low premiums flowing into it since 1987. Every sector has been affected, with the worst impact being felt by aviation underwriters. The dollar, in which much of Lloyd's business is denominated, has been weak against sterling.

Official figures show the decline in overseas earnings since the peak year of 1986. At that time total overall earnings of UK insurers were £4.8bn, of which the commercial companies made £2.5bn. Lloyd's £1.6bn and brokers £711m. By 1988, however, the last year for which figures are available, the total was down to £3.7bn and Lloyd's share to £956m. The Institute of London Underwriters,

which groups some of the larger commercial companies, says that a series of spectacular disasters last year means that it paid out £500m more in claims than it took in premiums. Lloyd's has presumably suffered a similar scale of loss.

The hope among underwriters is that Hurricane Hugo, the Phillips Petroleum petrochemical plant explosion and the UK and continental storms will finally force up reinsurance rates. There are signs of this happening in marine

**Underwriters hope that Hurricane Hugo will finally force up reinsurance rates**

reinsurance, as a long-term consequence of Piper Alpha, but non-marine reinsurance is still very depressed.

None of these problems is unique to Lloyd's. But it is the coincidence of very low prices for insurance with the continuing consequences of scandals and asbestos losses which occurred in the early 1980s that has made the market particularly gloomy.

The scandals remain important because they did lasting damage which continues to influence public perception of Lloyd's at home and abroad. When HS Weavers, the largest underwriting agency for US liability insurance in the London market, stopped writing new business at the end of March, there was a tendency in the US to assume that it must be somehow linked to Lloyd's, with which it had no direct connection.

Fast scandals have also given added impact to the Outhwaite affair. This originated in 81 contracts from other syndicates which RHM Outhwaite reinsured in 1981-82. Risks insured included so-called long tail policies covering asbestos and pollution claims in the US, all of which produced heavy losses for "names".

These may never total the £1bn figure sometimes quoted but so far the 1,600 members of the afflicted syndicates have paid out some £25m. By last December they had sued RHM Outhwaite and 51 members' agents who introduced them to him for negligence. Their ultimate aim is either to spread losses through the market by making the underwriters pay up for errors and omissions or, alternatively, to force Lloyd's to provide some solution to the problem.

This they are unlikely to do. Unlike the PCW affair, Outhwaite does not involve fraud. Even supposing the Council of Lloyd's wanted the market as a whole to bear the losses, it is unlikely that it would get majority support for that option.

Indeed, a problem for Lloyd's is that, despite all the new regulations, there is

a limit to the amount it can do. Mr Alan Lord, the chief executive, makes the point that a business strategy requires a series of planned and sequential steps. Given that Lloyd's consists of 410 small businesses, this is almost impossible for the executive to pursue.

Regulations have been tightened up. It is now more difficult for managing agents to leave an accounting year open on the grounds that potential claims cannot be estimated. Members are better informed about the business done by the syndicates to which they belong. Against some resistance, market barriers between the marine, non-marine, aviation and motor sectors are being abolished.

Brokers provide 85 per cent of business but service companies are becoming more popular as a way of making contact with customers. Improved information systems should make it easier for provincial brokers to place risks without going through their head office to reach Lloyd's.

Lloyd's also has to sell itself harder to its members, the number of which dropped by 2,321 to 28,386 last year. Most of these were names with a small commitment. Overall capacity went up, so the defections have no impact on the resources of the market. Syndicates are in any case using only 60 per cent of their capacity.

**Though more members may be needed, nobody knows how many would like to leave**

More important, membership of Lloyd's no longer has its old fiscal incentive as a way of reducing tax liability. The advantage to members today is that of using money twice, in the sense of using their assets and at the same time pledging them as part of Lloyd's capacity.

But in the longer term Lloyd's might need more members to take advantage of an upturn in insurance rates and here it could be in difficulties. Some 50 per cent of members are locked into Lloyd's because they belong to open years when their syndicate could not close its account. Nobody knows how many would like to leave the market.

Overall, the problems of Lloyd's are not as bad as they look or, to put it another way, they are no worse than many commercial companies with heavy involvement in the US property/casualty market. They are, however, very much more visible because of the Lloyd's name and the scandals of the early 1980s - but there is not very much that anybody at Lloyd's can do about this.

Patrick Cockburn

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## INSURANCE 3

Where life insurers can  
afford to be optimistic

## Savings give Italy scope for growth

ITALY'S LEADING COMPANIES in Lbn (1988)

	Premium income	Net profit	Net worth	Reserves
Generali	3,339	340	2,938	10,007
RAS	1,864	81	1,151	3,887
SAI	1,635	88	838	2,809
INA	1,626	93	1,193	8,805
Asitalia	1,426	33	542	1,574
Unipol	1,210	44	290	1,220
Lloyd Adriatico	814	36	222	1,107
Toro	768	68	584	1,387
Forestar	754	103	521	1,259
Alleanza	753	75	406	1,696

Total direct Italian premium income Source: R. Monelli

"LIFE INSURANCE in Italy has large possibilities for growth," affirms Mr Enrico Tonelli, chairman of Associazione Nazionale fra le Imprese Assicuratrici (Ania), the national association of insurance companies.

Figures for annual premium income from direct work in the Italian market show that opportunities are already starting to be exploited. Between 1984 and last year, premiums from life and

environment in which they were born and have developed," says Mr Tonelli.

Ania's chairman emphasises that international competition will not be limited to companies that choose to venture abroad. "Even those companies that opt to conserve and defend their positions on the domestic market will face international competition," he says. He believes that they will adopt strategies based on niches, specialisation, service improvement and agent fidelity to protect their markets.

Mr Tonelli does not see any barriers, either juridical or economic, to the entry of foreign insurers, particularly if they are from EC countries. "However, parliament is in the course of approving legislation that will give the Government power to block the acquisition of Italian companies by foreigners, where these are from countries that do not give parity of treatment to similar operations by Italian companies."

Ania's chairman says that freedom of establishment and freedom of operation are certainly not problems for EC companies, and that home country control is not a matter of contention. And on the issue of separating life and non-life business, Ania has backed the multi-risk approach that allows companies to operate in all sectors.

"If Italian insurers have to demerge their businesses we would seek legislation that would remove the fiscal burden that would arise," Mr Tonelli says.

However, convincing the politicians to ease taxes affecting the insurance sector is difficult. "Taxpayers may only deduct 12.5m of life and pension insurance premiums on their annual income tax returns, a figure unchanged since the mid-1980s. The Government's financing requirements prevent an increase in this allowance," says Mr Tonelli. He notes that Italy is unique in its 2.5 per cent tax on premiums.

Obtaining agreement to legislation for the insurance sec-

### Lombardy spends four times as much as Calabria per capita

tor is far from easy as the difficulties over private pension schemes have shown. "Various bills have been prepared but have been blocked by lack of consensus, creating a damaging situation of uncertainty."

Mr Tonelli would also like to see more certainty about the diversified distribution channels for insurance. "After years of separation between banks and insurance, the gap is gradually being closed. There have been some operations in which institutions have taken equity stakes in companies of the other sector. And forms of co-operation at a functional level, using bank branch networks to distribute insurance policies are being developed," says Mr Tonelli. However, the process moves slowly because of normative constraints.

Will the pace increase? Probably EC changes and the process of internationalisation will encourage faster development in Italy. In the past six years direct premium income has risen sharply, with a real increase of 53.6 per cent from 114,288bn in 1984 to 176,550bn last year, lifting the ratio of insurance to GDP from 1.96 to 2.5 per cent. But Italy is still under-insured compared to other major industrialised countries. The considerable scope for growth should continue being realised during the coming decade.

David Lane

THE ITALIAN MARKET: Life and non-life (%)

General Group	14.23
INA Group (state)	11.62
Public bodies	4.70
Co-operatives and mutuals	10.13
Other private companies	2.52
Foreign companies	29.80
Foreign representatives	4.10
Industrial/financial companies	22.90

Source: ANIASVAP

Diana Smith takes a look at the opportunities in the Spanish market

## No Klondike — but prospects are quite good

FROM afar, Spain's insurance market seems to offer unlimited opportunities. The country has a largely young, upwardly mobile population of nearly 40m people whose assets and potential as insurance customers are increasing.

From a distance, the market seems dramatically under-explored, as rich potentially as a latter-day Klondike for companies that until 1986 and its entry into the European Community scarcely thought of Spain as a market.

Seen in close-up, Spain is definitely under-insured — but no Klondike. Since 1986 several hasty prospectors have discovered that the stakes for which they paid exorbitant sums are big losers.

Insurers who have operated in Spain for generations confirm that the Spanish market affords buoyant prospects in almost every segment — life, pension and retirement plans, health, commercial and domestic multi-risk, large, medium or small industrial risk and transport. France's AGF, insurance pioneers in Spain in 1920, now controls a Spanish group that constantly expands its products and sold Pta 32.9bn (£183m) of premiums in 1988.

The black spot is vehicle insurance, plagued by soaring claims, repair and health costs and steep court awards for victims that have begun to push into the £1m bracket. Consequently, 1989 losses in this segment exceeded Pta 170bn; companies like AGF or the Swiss Winterthur shield themselves

from the fall-out from the mayhem on Spanish roads by careful sifting of drivers' records or pioneer bonus schemes.

As a market, says Mr Pierre Pierart, managing director of AGF Seguros, Spain yields fruit through patient, sustained cultivation; growth and profits are certainly there for Spanish, EC or non-European insurers, whether old-timers or newcomers — but in the medium rather than the short term.

There are hurdles: not least the Spaniards' tendency to spend and not to save what they earn. It is a slow process coaxing them to think about multi-risk, life or retirement insurance as a way of protecting their assets and their futures rather than as a get-rich-quick tax dodge like the enormous boom in the single premium short-term life insurance — the "Primas Unicas" — that caused a stampede in 1985-88 by black money in search of tax havens.

When the authorities decided that the Primas Unicas were being used as alternatives to tax-liable short-term bank deposits, they imposed a 20 per cent withholding tax, backdated, on the policies, and ruthlessly pursued institutions and customers who had run up Pta 1.5 trillion (£85bn) worth of Prima Unica holdings.

In the view of leading insurance brokers such as Mr Miguel Prieto, head of Cotes brokerage and secretary-general of the Spanish Brokers' Association, the Prima Unica phenomenon widely distorted the image of a

far less spectacular real expansion of Spanish life insurance.

Mr Prieto argues that premiums total of some Pta 400bn raised unrealistic hopes of rapid profits among newly-arrived European companies. The latter, having reviewed market studies that appeared to indicate a spectacular 30-40 per cent annual growth of life premiums, rushed into Spain hoping to grab a share in the bonanza.

In reality, says Mr Prieto, solid, sustained growth lies in insufficiently-covered areas such as industry and commerce, where barely 50 per cent of Spain's hundreds of thousands of small-medium enterprises have any insurance coverage at all, and those who do have coverage are under-insured in multi-risks.

Larger enterprises have traditionally bought more premiums but this is so, at least in part, because the enterprises are often controlled by Spain's powerful and network of banks which in turn own the country's biggest insurance companies. The system functioned until the chill winds of EC competition began to whistle in the mid-1980s on a sort of closed circuit: bank-tied factories bought insurance from bank-tied companies and banks' annual reports reflected ever-growing insurance business.

Thus, it would be true to say that over the years, Spain's insurance market has not been so much under-explored as a whole but explored after a fashion by some 500 companies, Spanish or foreign, nine-tenths of

which were short on assets, technique, management and range of products, and sold premiums rather than a service.

Ruthless official weeding in 1984-85, under the first blasts of market liberalisation, put nearly 100 companies into liquidation. Others were acquired by eager foreigners who were so keen to get into the Spanish market that they were willing to pay five-star prices for a one or two-star outfit. Of the 400 companies left — far too many in the view of most analysts — fewer than 50 control over two-thirds of Spain's insurance business.

European insurers who were sweet-talked into buying a shaky Spanish company have not as a whole found it easy to break the tight grip on the profitable end of the life and non-life market that is exerted longer-established Spanish or European or American insurers.

The turnaround of some unhealthy purchases, racked by losses and years of touch-and-go management, has not been nearly as fast as Swiss or British insurers with long experience in their home markets or in less-quirky international markets, expected. Methods applied successfully outside Spain have not always worked and claims that sizeable market shares could be captured within a couple of years have proved somewhat hollow for a half-dozen or so newcomers.

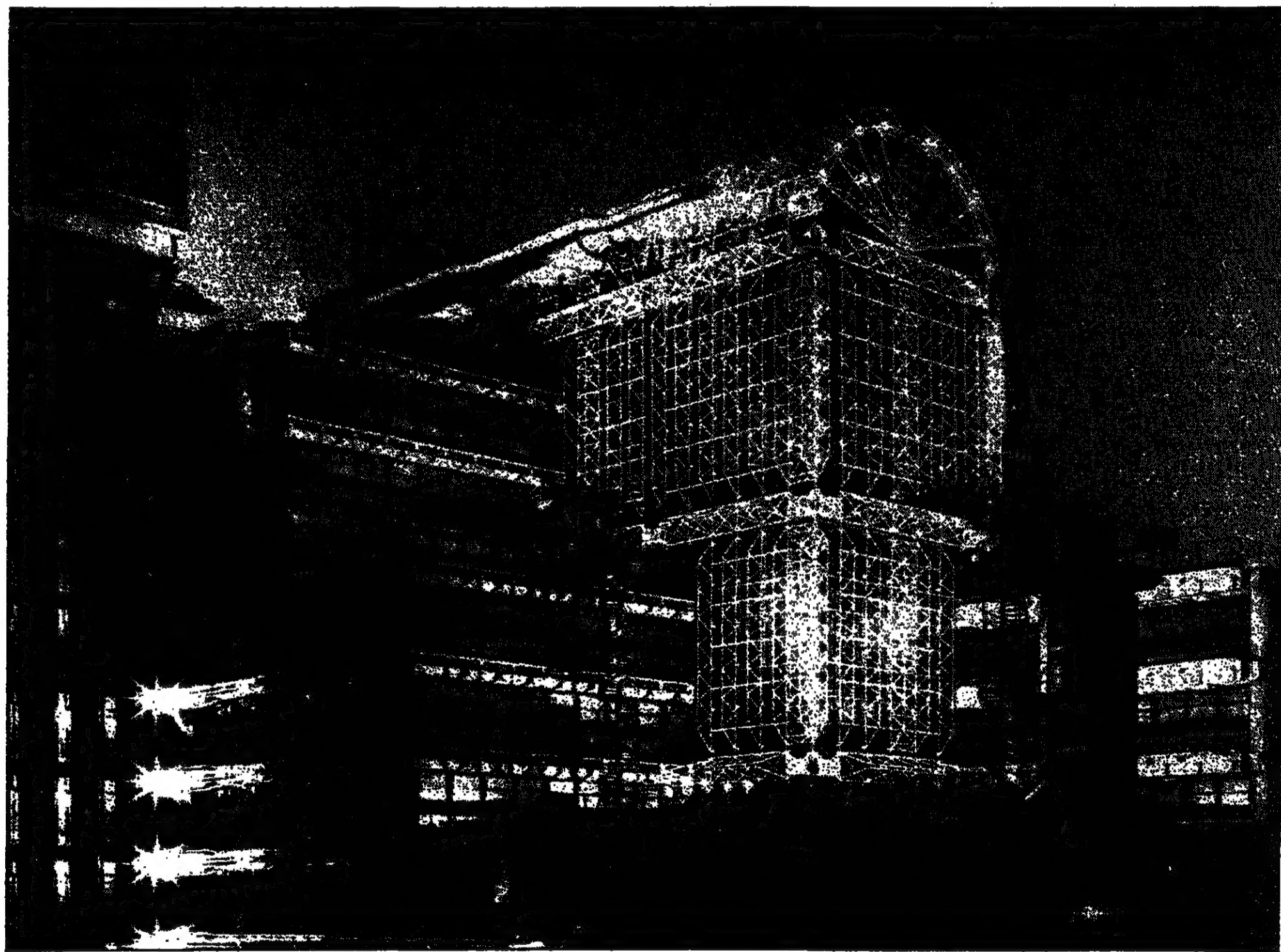
Their competitors, rather than say: "We told you so," are busily designing new products aimed at the rising young professional who, surveys now

show, has begun to think a personal retirement plan will be good for his future cash flow, or a household multi-risk plus services policy is just what he and his family need.

Spain's two year old Pension Plan law is slowly paying off for insurers as companies that had never before considered offering employees a pension scheme, start to join the European mainstream where pensions are a routine part of wage/price benefits — and insurance companies are picking up lucrative pension plan design contracts.

The message is that Spain is good for insurers who have the financial and technical reserves, the products and means of marketing them and the insight into the peculiarities of the market that permit them to find clientele and keep them. The latter point is an important one for as yet there is no such thing as client loyalty to one company — insurers depend heavily on local agents who mostly lack proper professional preparation.

Those who want to dip into the Spanish market are well advised to walk, doing careful homework as they advance, rather than to run to the nearest entrance. The fact that only 2 per cent of Spain's income goes towards insurance compared with 4 per cent in France and 8 per cent in the US may look alluring but it will only be meaningful with the fullness of time.



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## INSURANCE 4

Chris Pountain casts a critical eye on the fortunes of the UK brokers

## They're not out of the woods yet

THE GOOD news first. 1989 was a year of improvement for the leading UK brokers. Sedgwick's profits rose from £77.5m to £85.2m, the first year to see an increase since 1986. After two years of falling profits, Willis Faber saw an increase from £54.4m to £62.3m.

These turn-rounds are encouraging. Nevertheless, they arose mainly from external factors, namely weak sterling and high interest rates. Sedgwick, for instance, gained £5m from each of these factors, while Willis Faber enjoyed a £9m improvement in investment income.

Margins continue to decline in the basic business of insurance broking, despite very creditable expense control. Sedgwick's underlying brokerage growth (stripping out the impact of exchange rate movements) was around 1 per cent whereas underlying expense growth was 3 per cent. With Willis Faber, the numbers were 4 per cent and 6 per cent respectively.

Every few months, brokers' shares rally on hopes that much happier days are around the corner. But the industry is not out of the woods yet.

No Early Upturn  
In recent months, hopes have centred on an improve-

ment in premium rating, and consequently, commission levels, in brokers' key markets, following catastrophes such as Hurricane Hugo and the storms in the Atlantic.

These catastrophes have led to severe capacity shortages, and thus rate increases, in London market catastrophe covers. The hope is that the under-capacity in this particular market will swamp the over-capacity present in virtually all other insurance markets. But that may not happen.

It is sometimes forgotten how small the LMX catastrophe market is in world terms. Total premium income in this market for property risks could be below \$2bn. To expect under-capacity in this market to turn around an over-capitalised \$200bn market such as the US seems unrealistic, especially as the end-1989 solvency margin (shareholders' funds divided by premium income) of the US industry was the highest since 1965, thanks mainly to strong stock markets. Tells

that small do not wag dogs that large.

Perhaps instead we should ask: "To what extent will the over-capacity in most other markets bail out the under-capacity in this relatively small market?" The answer is unclear, although a pointer has been the willingness of various players in the industry to make good any capacity shortages in the US liability market caused by the recent problems at Weavers.

The world reinsurance industry has plenty of capacity to take catastrophe business from London - the end-1989 solvency margin of the US reinsurance industry was an extraordinarily high 119 per cent. Given that, for instance, the top five US reinsurers deal direct with their clients, rather than through brokers, such a development may well be unwelcome to brokers.

Certainly, Sedgwick does not appear to expect long-lasting recovery as the following quote from the chairman's statement in its 1989 annual report shows:

"Our own view at Sedgwick is that the nature of the cycle has changed since the 1970s and before. The 'soft' market is the normal condition and the 'hard' market the exception. These conditions have intensified the competition between brokers for available business with inevitable consequences on profit margins."

The message that these difficult days are going to be the norm raises the question of whether there is an insurance cycle at all any more. In the last 12 years, the US property-casualty business has had nine down-years and three up-years, measured by combined ratio. That does not sound like a cyclical industry - it sounds like a bad business.

Client Power  
Meanwhile the customer is also seeking more vigorously to cut his costs.

The resultant use of self-insurance type mechanisms (eg captive and risk retention groups) is now well-established in the US and is spreading across the Atlantic.

The expert, usually large,

broker should be well-positioned to assist the risk manager in this. Mr Sax Riley, an executive director of Sedgwick, recently wrote that 10 years ago 90 per cent of a broker's time was concerned with the transfer of risk. Now the figure is around 33 per cent. Much of the offsetting development has been the growth of self-insurance type mechanisms.

The trouble is that such business will be less profitable than traditional broking. It tends to be on a fee basis and, just as the risk manager is avoiding buying insurance because of the cost, so he will be concerned about the level of his fees.

Theoretically, the fee system should help. A broker should have a certain level of profit for the broker as he should know his own costs and, just add a little on for profit margin. In reality, brokers do not always have an accurate feel for their own costs and it is always better to reduce your fee rather than have staff sit around, doing nothing. Competition on fee between brokers is thus becoming more of a feature.

And the risk manager himself is questioning whether he needs the help of the broker. Last year, the chief executive of Airtec, the UK risk managers' association, described some risk managers as "well-qualified, properly regulated and very familiar with the industries which they represent - much more so than an outside broker could be." He added that having intermediaries between insured and insurer could hamper each party's understanding of the other's position.

London Market Doubts  
Meanwhile, underwriters are themselves questioning the relationship with brokers. That is particularly noticeable in Lloyd's where historically the underwriter was most subser-

vient to the broker and the broker enjoyed their highest profit margins. There is a tension between the two groups these days: the Lloyd's syndicates are looking for new ways of gaining business (through computer links or going out to get it themselves) while the large brokers are reducing the percentage of their business they place in Lloyd's.

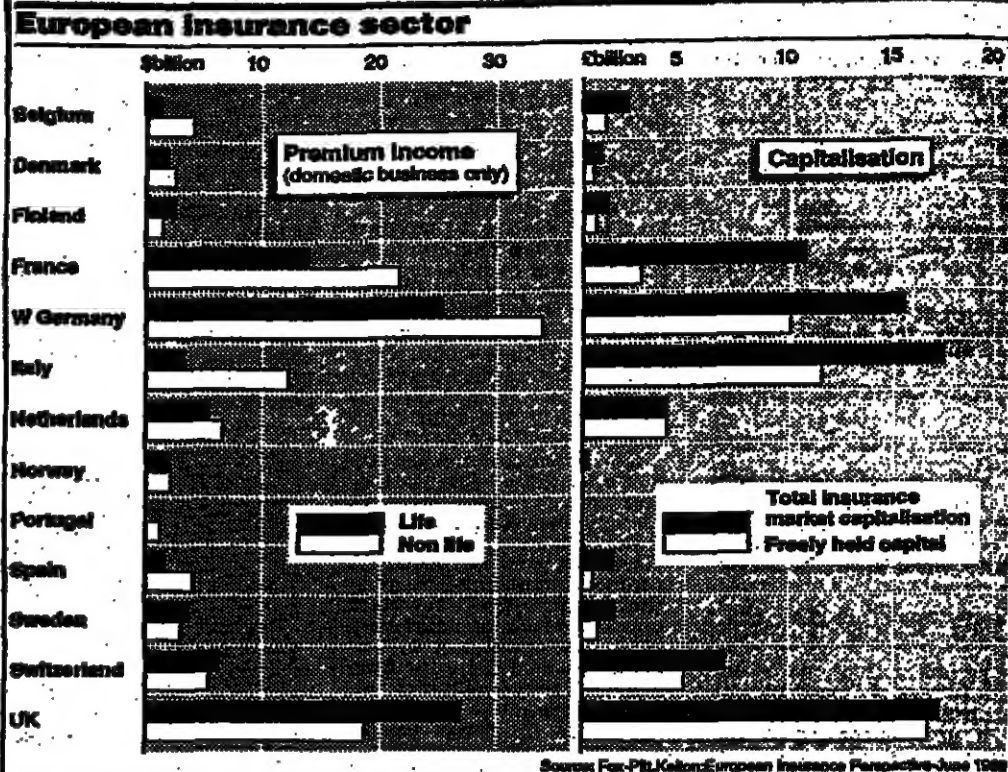
Meanwhile, the image of Lloyd's has not been helped by the much-publicised wrangling among names and syndicates over who pays long-standing US liability claims, and the LMX market dislocation following the catastrophes.

Europe is the brokers' major target area for growth. As the market for commercial lines opens up across national boundaries, so the potential for brokers should expand. The large corporate company on the Continent is going to need advisers to help him best place his insurance outside his own country and to provide him with more advanced expertise on risk services. The big multi-national brokers should have those skills and are thus getting into place on the Continent. Probably the major development in the last 12 months has been the Marsh & McLennan acquisition of its German associate, Gradmann

& Hofer. But developments will be slow - the established insurers on the Continent will not give ground easily and have the client threat. Continental Europe still provided just 7 per cent of 1989 turnover at Sedgwick, and the turnover of £41.3m was not dramatically ahead of 1988's £35.4m.

Gloom can be overdone. It is not that there is no future for brokers; quite the reverse. Clients will still need the skills that the more expert brokers can offer and there will still be many underwriters who view brokers as the best way to distribute their products. The problem is that the profit margins of the industry may well stay less than in former halcyon days, and may not support as many brokers as formerly.

The writer is UK insurance analyst at Morgan Stanley International.



Andrew Dlugolecki explains the upsurge in weather claims

## Running before the storm

OVER THE past 30 years there has been a dramatic increase in the cost of weather catastrophes to UK insurers. At £2.5bn, the October 1987 hurricane cost twice as much as all the major incidents since 1960 combined. Its cost was only surpassed by the £2.5bn in claims on insurers as a result of the twin storms of January and February 1989.

Other weather losses have also escalated. The 1987 freeze was the most costly since insurance records began, and the cost of subsidence claims arising from the dry summer of 1988 may well reach those from the Great Drought of 1976.

Some commentators suggest that this upsurge in weather claims is due to a genuine shift in climate as a result of the so-called greenhouse effect. My own analysis of recent weather patterns reaches rather different conclusions. It suggests that temperature and rainfall, peculiarly equable in the 1960s and 1970s, have now returned to more normal conditions, in which serious incidents are more common.

Data on wind speeds is not so reliable, but Professor Hubert Lamb, the doyen of climatologists, maintains that there is a 100-year cycle of storms which hits the last decade of each century.

Given that there has been a move towards more extremes in the UK climate over the past 30 years, is this sufficient to explain the greater costs now hitting insurers? And what can we say about how those costs will behave in future?

Comparison of the costs of major and minor weather incidents over the last 30 years suggests that over this period the same set of weather condi-

tions now produces twice the previous level of loss.

Broadly speaking, there are three reasons for this increasing exposure: evolution of the insurance product itself, and changes in the way the policyholder uses the product.

Exposure, or physical risk, has increased due to population growth and greater consumer wealth. These factors are generally thought to be favourable for the insurer, since consumer expenditure on insurance tends to rise faster than GNP. (Real growth also helps to abate price competition).

But consumer wealth naturally produces a shift in the type of goods being insured, and in the associated lifestyle. Perhaps the best example of this relates to domestic plumbing. The proportion of households with central heating rose from 37 per cent in 1972 to 75 per cent today. The cost of the installation alone is relatively little to the value of the typical house - under 5 per cent - and so produces only a small additional amount of premium. But the length of pipes carrying water internally is extended by several hundred per cent.

If we then add another bathroom, furnish the house with fitted carpets rather than linoleum and rugs, and at the same time switch to a lifestyle where the house is frequently unoccupied in winter, then obviously the risk of costly water damage will increase by more than the premium.

While individual changes in exposure may be found by on-the-spot surveys, this is relatively rare for domestic insurance owing to the high cost of home visits. The general trend over time was overlooked, because at first the business was profitable, and then later the problems of their claims resurfaced.

The clearest example of a product change in the insurance product producing more claims was the introduction of subsidence cover for domestic buildings in 1971, without an adjustment to premium. Retention soon followed with the dry summers of 1975 and 1976. Other developments leading to higher claims include the spread of "new for old" replacement cover, which largely ended the reduction of claim settlements by depreciation as with pure indemnity cover. Again, the change was introduced quickly under competitive pressure, and again we are still learning to strike the balance between premium and risk.

Perhaps the most insidious change has come in the way that the product is used by the policyholder. The advent of "All Risks" cover changed his perception of claiming. From being a rare event, following an Act of God, claims could now be made for (almost) any occasion of bad luck or carelessness. At the same time, consumers are more aware of their rights, and more prepared

to make claims.

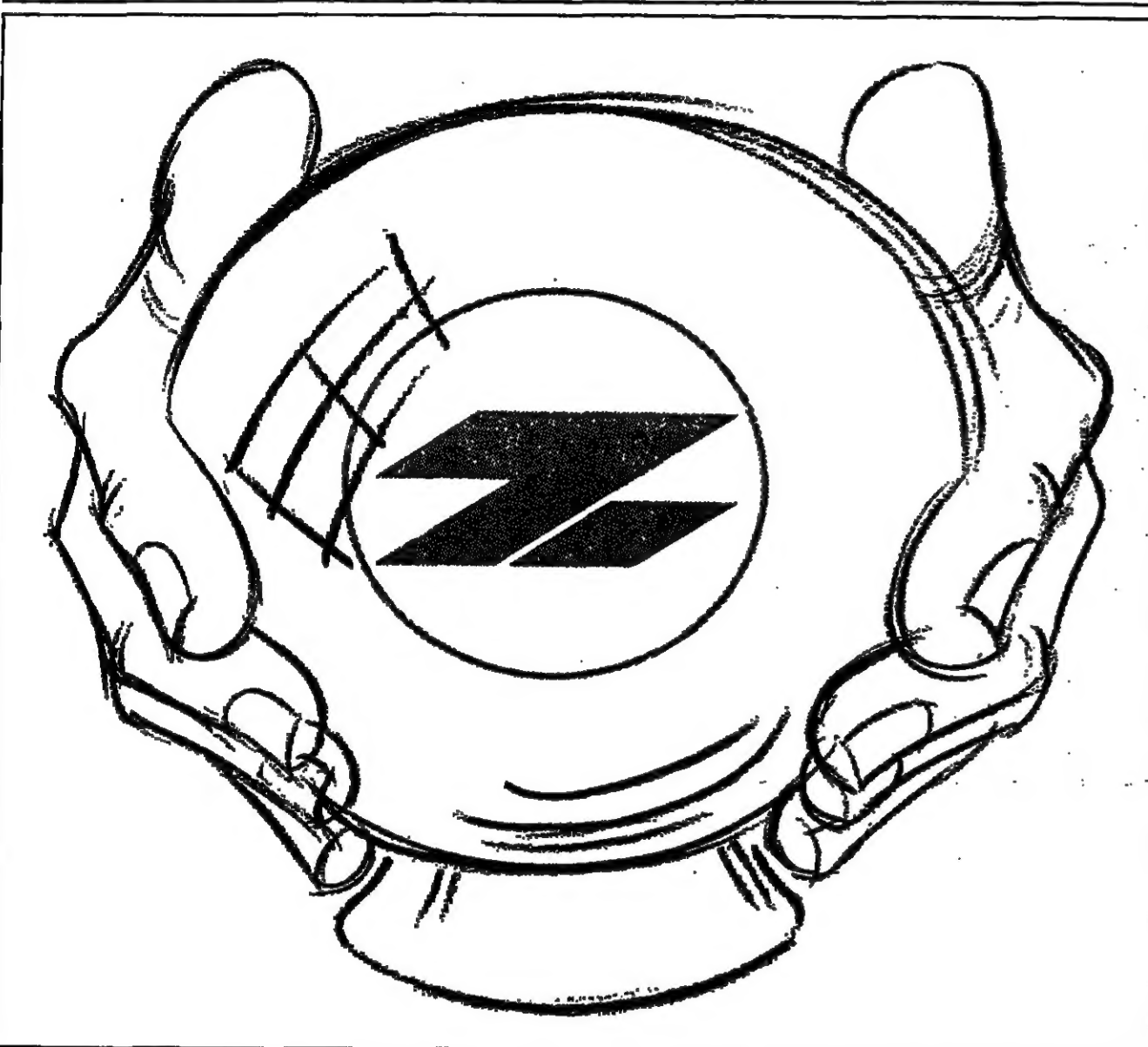
For their part, insurers have encouraged this trend by the introduction of "plain English" policy wording, and easier procedures for claiming, like telephone helplines, as part of their strategy to develop brand loyalty. As a result, it is almost impossible to know whether a spurious claim was made innocently, or just to see if a maintenance item can be met by the insurance policy. And of course the best time to try to put a dodgy claim through is when the claims department is up to its ears in a deluge of weather claims!

If this is the shape of things to come, can insurers make money out of underwriting? From the point of view of the insurers changes are needed which maintain customer relations while encouraging responsible claiming and getting right that vital equation between premium and outgoings. Measures might include a range of household policies, which offer cheaper

rates for reduced cover, and a no-claims bonus to reward careful policyholders. On the commercial front, small weather claims can be eliminated by using increased deductibles, from £100 to £250 per claim, which will remove the submission of minor claims.

Pricing the product is more difficult. Clearly, customers need to pay more, and reinsurance rates have already risen 33 per cent this year, but 1989 and high interest rates are exerting powerful pressure on insurers to concentrate on market share. There is a growing call for the Government to allow UK insurers the same tax-free catastrophe reserves as foreign competitors, although pessimists comment that there will be no need to smooth results in future, because there will be a disaster every year!

The writer is a commercial insurance manager at General Accident.



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## LIFE ASSURANCE

## Shock waves hit the UK

THE UK life insurance industry is still coming to grips with the full implications of the 1986 Financial Services Act and the rules which regulate it. But already the impact of this legislation, enacted ostensibly to protect consumers, has resulted in major upheavals within the industry affecting almost all aspects of operation.

The first shock wave to hit the industry was the introduction of the polarisation requirement whereby an intermediary marketing life insurance products must either be completely independent or be the representative of just one life company.

This was accompanied by two other shock waves: the requirement that an intermediary give best advice, which for independent advisers meant dealing with the whole market and recommending the best, not just dealing with a few selected companies; and the requirement that independent advisers disclose to their clients the commission received as a result of a sale.

Finally, the whole industry was hit hard by the costs of complying with the financial services regulations - costs which were proportionately heavy for the smaller intermediary.

These waves brought about several reactions, many of which were interlinked. Intermediaries who previously considered themselves independent have decided which status to adopt - independent or company representative. Many opted to cease being independent and become a tied agent of a particular life company.

In turn, life companies, especially not in the top flight for investment performance, which previously marketed mainly through independent

advisers, had to expand their distribution outlets to secure their new business.

Midland Bank ascertained quite early in the upheavals that the public, in general, was completely sympathetic over who it dealt with - independent or company representatives.

These building societies which started off as independent advisers switched, in the course of time, to becoming company representatives.

But Midland Bank also set

**Banks and building societies may dominate the life industry**

the trend by setting up its own life company - Midland Life - and its branch staff became representatives of its in-house life company.

Other clearing banks - Barclays and Lloyds - have had their own in-house life companies for some time, starting the operations from scratch under their own steam.

Midland, however, went into partnership with an established insurance company, Commercial Union, to form its life company, with Midland holding the majority of the equity.

Commercial Union supplies the administration and product expertise, while Midland provides the distribution and investment.

This development has been followed by the Royal Bank of Scotland and certain building societies, including the Woolwich and National & Provincial, having taken the decision to cease being independent, further decided to go all the way and set up their life companies as junior partners.

Britannia Building Society was unique in that it managed

to acquire an existing mutual life company, the Glasgow-based FS Assurance.

Experience has shown that it takes time to build up from scratch the necessary administration systems and product expertise necessary to run a life company.

These partnerships enable the new life company to use the product know-how of the established life company - initially, the products launched are clones of those contracts in the product range of the established life company.

And usually, the administration of the new life company is handled on the existing systems of the established company.

This contrasts with the action taken by most building societies to become the representatives of an existing life company where technically the life company is responsible for the marketing by the building society of its products and of the staff involved.

Already, it appears that such ties are causing friction and there could be an upsurge of the situation by societies.

Some insurance analysts argue that these developments may be the start of the process whereby the life insurance industry in the country will be dominated by the banks and building societies, though these institutions will probably have become indistinguishable by then.

Certainly, once the managers of the in-house life companies have acquired the experience of running the company, banks and building societies are likely to consider buying out the life company partner and have sole control over the in-house company.

A further pointer to the way the UK life assurance industry is likely to move comes with the tie-up between the life assurance and other financial services operations of Lloyds

Bank and Abbey Life to form a conglomerate, Lloyds Abbey Life.

Some major life assurance groups could still react to this development by themselves acquiring a deposit-taking and lending operation.

The giant Prudential Corporation makes no secret of the fact that it would like to take over a building society and has already had preliminary, though unfavourable, talks with one.

This year's Budget, which was favourable for banks and building societies but had little for life companies, could act as a catalyst in the thinking of life company executives.

Analysts already feel that there are too many life companies operating in the UK. In particular, there are too many small companies that do not seem able to grow beyond their current size relative to the market.

There is already a need for mergers and amalgamations of small and medium companies.

The entry of even more life companies into this field with established distribution networks could get these mergers started.

In theory, these life companies offer attractive opportunities for overseas insurance groups and other financial conglomerates to enter the UK financial services market and from there into Europe.

Although there has been some takeover activity by overseas groups, with European institutions to the fore, only small companies are up for sale at high prices.

However, the outlook for the life assurance industry over the next couple of years is one of rising costs and falling new business.

Eric Short

Eric Short looks at a significant business for UK firms

## Clouds over pensions spree

CURRENTLY OVER half the new business transacted by life companies operating in the UK is pensions business.

For some life companies, it can represent as much as 85 per cent of their business.

The radical changes in the UK pensions framework introduced by the Government in 1988 created very favourable conditions for life companies to expand their pensions business.

Generally, life companies and intermediaries have taken advantage of these conditions. The first and most significant of these changes was the introduction of a new-style personal pension for employees not in a company pension scheme and the ability of employees to use a personal pension to opt out of Serps (State Earnings-Related Pension Scheme).

Employees who were not already in a contracted-out pension arrangement were given additional encouragement to opt out of Serps by the Government paying additional incentive contributions into a contracted-out personal pension.

Life companies and intermediaries seized on this latter feature last year to mass-market personal pensions to contract out of Serps, spearheaded by blanket TV and media advertising.

The result was that nearly 4m personal pension contracts were sold, of which well over 3m were used to contract out of Serps.

The rebate-only personal pension contracts used to opt out of Serps proved to be ideal contracts for the agents of home service insurance to market to their clients.

The unique feature of these contracts is that the employee does not have to put down any money. The rebate comes out of

his National Insurance contributions. In addition, if he is not contracted out of Serps, then the employee receives an additional incentive contribution from the Government.

So, as a result, Prudential has sold over 225,000 contracts, the Co-operative Insurance Society 131,000 and the Britannia Assurance around 100,000, for which the company received a marketing award.

It is a moot point as to whether as much personal pensions business would have been transacted had not the house mortgage market been depressed at the time.

As it was, intermediaries have the time to push personal pensions business to replace the lost mortgage-related life business.

But this year, the push for personal pensions business ahead of the end of the 1989-90 financial year has been in a much lower key. Life companies so arranged their contracted-out personal pension contracts so that these were automatically renewed unless the employee concerned, or his adviser, informed the life company otherwise.

This has left companies and intermediaries with more time to build on last year's success and market top-up personal pensions to those employees who took out only contracted-out personal pensions last year.

In addition, last year's success in personal pensions gave life companies a 5m-person data base of employees who are not in a company pension scheme and who are open to marketing for personal pensions.

Figures issued recently by the Association of British Insurers show that the personal pensions boom still has a lot of steam left in it.

New annual premiums in the

first quarter of this year were 6 per cent up on the first quarter of last year, while single premiums had more than doubled.

These figures confirm the reports from individual life companies which show that in general companies have at least held on to last year's growth, despite indifferent investment returns so far this year.

However, this rosy picture is disturbed by two clouds - one overhead and the other on the horizon.

**The employee does not need to put down any money**

The worsening economic scene with high mortgage rates could well result in employees cutting back on their pension contributions or deciding not to enter any pension commitments in order to meet the mortgage bill.

The central theme of the Government's pension reforms was freedom of pension choice for individuals.

So unlike company schemes, where the contributions paid by the employee represent involuntary savings on his behalf, freedom of choice with personal pensions means freedom not to do anything.

Behind the more distant cloud is the Labour Party, which has always been overly uneasy towards the concept of personal pensions and downright hostile towards using personal pensions to contract out of Serps.

If Labour wins the next election, then it intends to restore Serps to its former glory and make it virtually impossible for employees to use personal pensions to contract out of Serps.

Incentive payments will stop the moment Labour gets elected.

However, 3m employees are a lot of voters. So Labour has gone back on its initial proposals to employees who contract out of Serps through a personal pension should be forced back into the scheme.

Now it proposes that they can continue to remain contracted out of Serps. Instead, it hopes to be able to convince employees that the restored Serps offers better value than personal pensions.

The Labour proposals even envisage bringing the self-employed into Serps - a move that would hit an important sector of the personal pensions market.

However, previous attempts to provide state pensions for the self-employed other than the basic flat-rate pension have failed to get off the ground.

Until the Labour Party publishes more detailed proposals about its pension plans, it is impossible to judge whether there is a viable method of bringing the self-employed into Serps.

Meanwhile, the self-employed will still need to make their own pension provision through personal pensions, thereby providing life companies with a vital and profitable source of personal pensions business.

The Government's reforms also ended the life companies' monopoly in providing personal pensions. Now banks, building societies and unit trust groups can market at least the savings element of personal pensions.

To date, very few of the institutions have taken advantage of this new facility. Those which did market personal pensions have found the build-up rather slow.

Eric Short on the opportunities for UK mutuals

## Test is yet to come

MUTUAL COMPANIES, where there are no equity shareholders, are an important sector of the UK insurance industry, particularly in life assurance.

The upheavals in the whole financial services industry and the rapidly changing environment in both the UK and Europe are having dramatic repercussions on insurance companies, but even more so on the mutual companies.

The new environment has resulted in growing competition both between life companies and from outside institutions. It also offers ever-widening opportunities for expansion and new opportunities.

But to fight off competition

and take advantage of these opportunities requires adequate capital resources, and the capital backing of companies will need to expand over the next decade.

Mutual insurance companies have no other source of capital other than what can be generated internally from their own resources. There is no other financial institution or equity shareholders to meet the growing capital demands.

In the UK, conditions have brought about a steady stream of demutualisations of mutual life companies; invariably the demutualised company has been immediately acquired by an outside financial institution. Rarely, if ever, has the

mutual been able to convert into a publicly-quoted company.

However, with some notable exceptions, UK mutual companies do not seem to have reached the point when they either have to demutualise or go under.

Most mutual companies were founded centuries ago. Equitable Life was founded in 1762 and Scottish Widows is celebrating its 175th year this year. During this period, many mutuals have grown sufficiently to become major UK life companies.

Decades of prudent actuarial management in an era of rather gentle competition has resulted in very large free reserves being accumulated.

These reserves are now standing these mutuals in good stead in these times of testing conditions.

This feature was highlighted by one of the exceptions mentioned above - the Glasgow-based FS Assurance which last year demutualised and was immediately acquired by the Britannia Building Society. FS had operated as a mutual life company for less than 30 years, having converted from being a friendly society.

With funds at the time of around £200m, it was very small by life company standards and did not have the resources to compete under current conditions.

But one can argue that the real test for mutuals has yet to come.

Up to now, they have been operating under boom marketing conditions with expanding new business.

The decline in mortgage-related business as a result of the depressed housing market has been offset by the boom in pensions business, particularly personal pensions.

The increasing financial strain brought about by increasing competition and the requirements of the financial services regulations have been met from the front-end loadings in the new business premiums.

For some companies, it has appeared over the cracks that were appearing.

However, many life companies executives are bracing themselves for a drop in new business premiums while costs continue to spiral upwards.

Under such conditions, companies are tempted to try to maintain market share by increasing commission payments and hold on to competitive bonus rates by raiding the reserves.

The consequences of poor expense control and maintaining unjustified bonus rates were highlighted by the problems of the mutual life company, United Kingdom Provident Institution.

Its problems became so severe that it had to be rescued by another institution - another mutual life company.

Continued on Page 6

There will be approximately 4600 insurance companies competing in

Europe after 1992. Of these, there are only 838 with

experience in the most competitive market - Britain; 564 of these offer no

life insurance; and 209 have no general insurance policies; 48 of the

rest don't provide household help, and 13 won't insure events against

the effects of bad weather, and 2 of the other companies aren't even interested in

insuring against the possibility of twins; only 1 company does all of the above.

Source: Industry estimates and DTI Insurance Annual Report 1988.

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Hurricane Hugo - a 1989 disaster for the US property/casualty market, as well as for this Pointe-à-Pitre, Guadeloupe, resident



## INSURANCE 6

Tom Bennett takes a longer-term view of the composite sector

## How the US cycle influences the UK

NEVER HAS the UK composite sector had such a bad first quarter as that which is now being reported. Heavy storm losses have come on top of rating structures weakened by competition to produce pre-tax losses. These losses may be unprecedented but they are almost insignificant when compared with damage done to balance sheets by falling equity and bond markets.

However, these difficulties are far from permanent. Markets recover and insurance premium rates sooner or later reflect loss costs. Thus a long-term view of the UK composite sector throws an interesting light on modern professional management.

These companies are trading in a profit cycle that last time ran 10 years from peak in 1978

to peak in 1988. Although their chief executives rarely have more than 10 years in office, corporate development activity is frequently based on economic prospects for the coming decades. Against this background of long-term cycles and longer-term planning, modern professional investors find that they have to answer to trustees on the basis of quarterly performance measurement.

Thus we see General Accident pilloried for NZI Bank losses, but little appreciation of the long-term benefit of its acquisition of 10 per cent plus market share in seven Pacific Basin newly industrialised countries. We see Guardian Royal Exchange's tie-up with the largest private sector bank in Italy, Europe's fastest grow-

ing insurance market, described as a negative development. Similarly GRE's dramatic link with Nationwide Anglia had no effect on its price.

The market can be more forgiving about catastrophes and losses. The impact of reinsuring

## Hurricane Hugo initiated a strong run in share prices

ance cover and the beneficial impact on subsequent rating are appreciated. Thus Hurricane Hugo, costing four times more dollars than any previous hurricane, initiated a strong run in share prices on both sides of the Atlantic. The hope was that the losses would turn

the cycle of competition in the US.

In fact, these hopes proved to be ill-founded and, despite the California earthquake, the present cycle of competition remains severe outside those areas most directly hit by catastrophe losses.

The US insurance cycle has been detectable for as long as records exist. Since 1970 it has intensified, swinging the entire US property-casualty insurance industry from underwriting profits to pre-tax losses in 1984 and 1985. The impact of this cycle on the international world of insurance was felt outside the US. Canada suffers directly, along with the important London insurance market.

The US insurance cycle has therefore been the prime

determinant of the rating of the UK composite insurers. The chart shows two aspects of the cycle. Firstly, it shows premium growth for the industry adjusted for inflation and changes in the real economy, as such this is a passable approximation of premium rate changes in the US. Secondly, it shows the industry underwriting result measured as a percentage of premium income. The intensity of the cycle that is gauged from the fact that investment income typically averages about 15 per cent of premium income.

Views about the cause and likely course of the US cycle abound. The sober assessment of Mr David Rowland, chairman of Sedgwick, is that intense price competition is the natural condition of the US insurance industry. This view has the advantage of agreeing with the underlying economic reality. AM Best reports that the US industry had capital of \$184bn at the end of 1988. This represents a solvency margin of 66 per cent - far too much capital in a mature market to sell commodity products to professional buyers.

It is hardly surprising to find that US premium growth in 1989 was just 2.1 per cent, almost 6 per cent below the level required to maintain underwriting profitability.

This type of intense competition is frequently seen in financial markets; the price war in London stockbroking is one example. The conclusion was in UK life insurance yet another. Its function is to reduce excess supply, its effect is to sort the weak from the strong. It does not bode well for the UK composites. In 1989, a 10 per cent underwriting loss still left the US industry with after-tax profits of \$19.5bn (including \$8.5bn of unrealised investment gains). This represented a capital return of 16.5 per cent.

Barring major catastrophes, hopes of an early amelioration of this competition seem unlikely. If insurance earnings remain under pressure, then shareholders will have to look somewhere other than profit and loss accounts for their return. They will look to balance sheets. This is not an irrelevant consideration. UK insurers are almost unique in

excluding investment gains from profit and loss accounts but in 1989 capital appreciation produced £2.7bn of profit for the composites. In contrast, stated pre-tax profits were just \$890m.

Balance sheet strength has three roles. It supports the underlying insurance business, it underwrites progressive dividend policies and it acts as a reference point for bid rumours. It is not surprising that UK fund managers prefer to see strong balance sheets.

A prediction for balance sheet strength has greater logic than is immediately obvious. There is the simple point that high solvency margins allow insurers greater freedom to invest for maximum return. In most years this produces greater investment returns and has led to a virtuous spiral of great strength generating even greater strength.

There is another aspect of

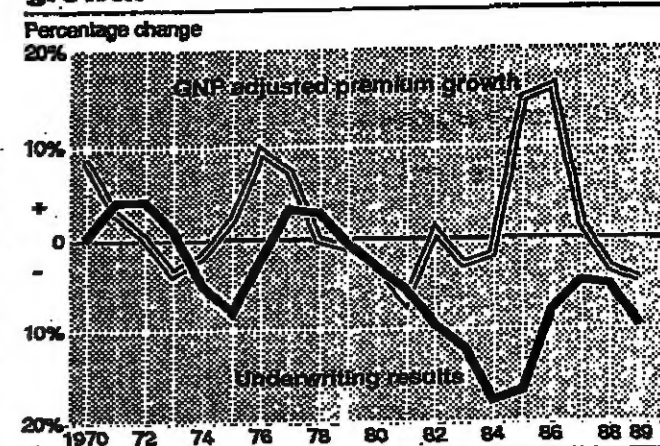
## The discount rating implies the market expects damage

balance sheet strength to be kept in mind by those seeking relative performance. This is shown in the table. This compares dividend cost with income generated by each of these composites from their holdings in equities and property together with their life profits. These earnings have two things in common, they grow year in, year out, and provided the rest of the business is not losing money they can be regarded as wholly distributable.

The table demonstrates the support this type of income gives to dividend payments. In the extreme case of Sun Alliance this financial engine guarantees dividend growth almost 2 per cent per annum faster than its income stream. This above-average growth lasts indefinitely, even in the improbable event that Sun Alliance's £2.5bn non-life insurance business never makes a profit.

Less comfortable are the positions of Royal Insurance and General Accident. Royal, in particular, still carries the highest direct exposure to the US market, and now its solvency margin is

## US underwriting results and premium growth



approaching old rights issue levels. Of course its fortunes would be transformed by a turn in the US cycle combined with improved investment conditions. In the long term this seems inevitable but shorter term all is uncertainty. The question for Royal and the rest of the sector is how much damage will be done before it is clear that the turn has arrived.

The discount rating of the sector implies that the market expects damage and that this damage will be considerable. Take the extreme case of Sun Alliance which yields about 20 per cent more than the market prospectively. That implies an expected permanent diminution in dividend cover of some 570m, which in turn implies a capital cost well in excess of

£1bn. After tax and reinsurance, that is the equivalent of 18 October Hurricanes, with no offsetting profits.

Of course, it is just possible that the market expects no such thing. It may be that the market just gives unnatural weight to short-term factors. If so, this obviously can have nothing to do with trustees that rely on quarterly performance measurement, and those trustees obviously bear no responsibility when UK companies with open share registers are subject to bids from foreigners with different longer-term valuation criteria. And different accounting policies.

The writer is an insurance analyst at Paribas Capital Markets Group

ESTIMATED COMPOSITE INSURERS' INVESTMENT INCOME MIX IN 1989					
	Commercial Union (£m)	General Accident (£m)	GRE (£m)	Royal (£m)	Sun Alliance (£m)
Total interest	254.7	324.6	246.4	477.3	215.8
Equity dividends	44.9	100.4	54.4	54.0	85.6
Property rents	18.2	37.7	21.8	19.7	57.2
TOTAL (ex interest paid)	318.8	462.7	322.6	551.0	358.7
PERPETUAL DIVIDEND COVER					
Life profits	82.0	26.9	22.2	61.0	40.5
Dividends & rental income	94.1	132.1	78.2	101.8	142.8
Total (less tax at 25%)	94.6	123.8	78.0	101.0	137.5
Net dividend cost	(91.5)	(106.5)	(88.4)	(123.0)	(96.0)
PERPETUAL DIVIDEND COVER	103.4%	116.2%	90.3%	82.1%	138.9%
YIELD RELATIVE TO FTA	132%	140%	147%	157%	120%

## Mutuals: test is yet to come

Continued from Page 5 Friends' Provident. But we could easily have seen the first demutualisation and acquisition well before FS Assurance did this.

London Life provided another example of what can happen to a company that fails to control its expenses. Though the company took corrective action in cutting its bonus rates to stop the hemorrhage of reserves, the company was left too weak to compete in a market where only the strong can survive.

To the outsider, it appears only too obvious that the smaller mutuals, at least, ought to merge to form larger, stronger units.

But apparently, no mutual has considered such a course of action.

Any such merger would mean a rationalisation of operations, branch closures and staff redundancies - too painful a process to contemplate when conditions still look favourable.

Yet, merger of mutuals may not be a viable proposition when trouble hits the industry.

It takes time to organise a merger, if it is to be successful and time to resolve matters is not usually available when trouble strikes. Demutualisation and takeover may be the only answer, or alternatively it could mean closing the company to new business and running off the existing business.

Executives at the mutuals freely admit that they are still considering at length their

future course of actions.

Some of the smaller and medium-sized mutuals, such as National Mutual Life and National Provident Institution, have decided to be niche players rather than endeavour to compete with the larger life companies by offering a complete range of products.

Both these companies intend to concentrate on pensions business mainly for individuals (self-employed and executives), marketing solely through independent financial advisers and concentrating on the upper end of the market, rather than the mass market.

Such a market is, they believe, stable, with high contributions and lower unit costs. By ensuring a high level of service and good investment

returns, the companies feel that they can not only attract new business, but retain their existing business.

For the time being, at least, they have eschewed following up any of the opportunities presented by the single financial market in Europe in 1982. They are leaving such developments to the larger companies.

At the other end of the scale, although technically the Halifax Building Society is a tied agent of Standard Life, the link-up is developing, with a joint unit trust company, into what appears to be a merger, in all but name, between a mutual banking operation and a mutual life insurance company.

This could be the pattern for the future.

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